

Barclays: underserved markets

Credit where it's due

Barclays partnered with two overseas development charities in a three-year project eschewing traditional microfinance initiatives to establish community-based lending facilities for disadvantaged people in Africa, South America and Asia

The economic growth of developing nations, and the associated improvement in the lives of their populations, is supported through financial inclusion in as much as it is held back by a lack of financial skills. Those who are financially excluded with no means of accessing, or understanding, secure savings and credit services can find it almost impossible to break the cycle of socio-economic seclusion.

“Many of us take it for granted that it’s easy to get a bank account,” explains Chen Wong, Programme Manager for Banking on Change at Barclays. “But that’s not the case in the developing world. Lots of people don’t have the ability to save or access credit. That puts them at an automatic disadvantage.”

However, through the Banking on Change project, Barclays hopes to support around 400,000 disadvantaged people in 11 countries in Africa, South America and Asia enter the economic mainstream. The bank has invested £10m in the three-year project, which was launched in 2009, and teamed up with the overseas development charities CARE International UK and Plan UK to implement its innovative microfinance and education model.

Microfinance is becoming an increasingly popular approach to tackling poverty in the developing world, but it is not without its critics, who have justifiable concerns over high interest rates and exploitative operators. Banking on Change aims to take a different tack, Wong insists. Two essential factors differentiate it from traditional microfinance approaches. First, it is savings-led. Second, it is community-managed.

Most microfinance strategies depend on an external finance provider lending credit to a small group of borrowers. Those borrowers then pay back the original loan, with interest. The approach that Barclays is promoting, by contrast, starts with the borrowers themselves. Operating through self-governing groups, they pool whatever resources they have into a central fund and issue savings and loan services to one another.

The interest on repayments is ploughed back into a central fund for future loans or shared out among members, rather than disappearing into the pockets of private providers. Because the loans are owned and managed by the community itself, the cost of lending is much lower. That keeps interest rates

A village savings and loans association meeting in Kenya



down. Levels of trust, transparency, flexibility and accessibility, meanwhile, are higher compared with programmes led by external credit providers.

Trust is one of the first challenges banks have to overcome when working with such communities, says Wong. "In the communities we work in banks are often seen as inaccessible," he says. However CARE and Plan can provide a bridge into these communities. "We are working in partnership with these NGOs as they have the relationships and expertise in these countries. We need them to help us reach out effectively," says Wong. CARE first came up with the idea for community-managed savings groups – known officially as Village Savings and Loans Associations – more than two decades ago.

From the outset, the project was not designed for the bank to tout its services to new customers, says Wong. "This is supporting people to develop the skills they need to make real sustainable changes in their communities." Nor, says Wong, is this just window-dressing for the bank. "We have invested £10m in this programme and it has been given great support by [chief executive] Bob Diamond and [chief executive, retail and business banking] Anthony Jenkins, both of whom have visited VSLA groups in the field.

"Our level of interest is far beyond that shown by traditional community investment programmes. We are deeply involved and constantly in touch with our partners and staff on the ground."

In those countries where Barclays does have a presence, volunteers from among the employees work with charity officers, visit local groups and use their skills and experience to add value to the programme. "These linkages are very important. Our colleagues work with these groups and gain a great understanding of their needs and attitudes," says Wong. "This learning is shared within Barclays so that our whole business will benefit. One of my key tasks will be taking best practices forward, exploring the key challenges and critically look at what worked and what could've been done better."

This learning, he hopes, will inform not only Barclays, but other banks, NGOs and eventually governments on how to deliver financial inclusion programmes that are not only driven by social and business benefits, but are also sustainable development solutions in the long run.

One item that is likely to feature among Wong's final report's "key challenges" is the bank's working relationship with the charities, a tripartite corporate and NGO partnership that was quite unique at the time of its inception and which was recognised as a likely challenge, even before the project began.

Christine Svarer, CARE International UK's Head of Private Sector Engagement, says: "What worked fantastically well was that Barclays realised right from the start that working with NGOs would require

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the company

Barclays is a major global financial services provider engaged in retail banking, credit cards, corporate and investment banking and wealth management, and has an extensive international presence in Europe, the Americas, Africa and Asia. It operates in more than 50 countries and employs more than 145,000 people. It reported full-year group profits as £6.06bn for 2010, up 92%. Net income rose 22% to £25.77bn.

■ Barclays aims to deliver on four key areas: maintaining a strong capital base, improving returns, delivering selective income growth, and demonstrating its credentials as a global citizen.

■ The bank is committed to continuing carbon reductions, through work on its data centres and sustainable building design, with achievement of the ISO14001 Environmental Management System extended to include the Barclays Capital & Wealth operations in Birmingham, Moscow, Singapore and New York.

■ In 2010, Barclays purchased 1,192,000 carbon credits from projects in Brazil, China, India, South Korea, Tanzania, Kenya and Thailand. This purchase offset global carbon emissions from energy and travel totalling 1,005,000 tonnes of CO₂ reported in 2009 and an additional 133,000 tonnes of CO₂ for 2008.

a significant investment of time and energy. And it was fully prepared to make that investment."

So, in the year before the project was officially launched, Barclays, CARE and Plan staff, both at home and on the ground in the client countries, attended meetings facilitated by a third party to thrash out a common working policy.

"We all learned so much from these meetings," says Svarer, "which we at CARE have been able to take to other partners. It was sometimes hard work and there were misunderstandings. But although we were approaching the project from different angles, we all had the same aim. All the partners recognised that we needed each other's skills and expertise if the project was going to be effective."

Such is the importance of the lessons others can learn from the relationship between Barclays and the charities that a panel will be convened on 26 October in London to explore the experience and give others a "realistic perspective" of forging a working partnership across corporate and NGO boundaries.

■ Further information: chen.wong@barclays.com

comment BARCLAYS



Microfinance has long been associated with Asian banks, particularly in India and Pakistan. This is changing and Barclays' 'Banking on Change' is an interesting twist on an established formula. CARE International UK first developed the concept of community-managed savings groups, known as Village Savings and Loans Associations, more than 20 years ago. Barclays and fellow partner Plan UK is taking this concept to a new level, with the bank investing £10m into the project. The aim is to make a real difference by turning the microfinance process around, creating self-governing groups to pool their resources into a central fund issuing savings and loans services to each other. It keeps interest rates down and builds trust within the community.

Points to note:

- Innovation on a microfinance model, building on community networks.
- Barclays engagement through NGOs and recognising the need to devote time and energy to develop the partnership through a year's pre-planning.
- Senior level buy-in and support to ensure the programme is sustainable.

PHILIPPA FOSTER BACK, INSTITUTE OF BUSINESS ETHICS