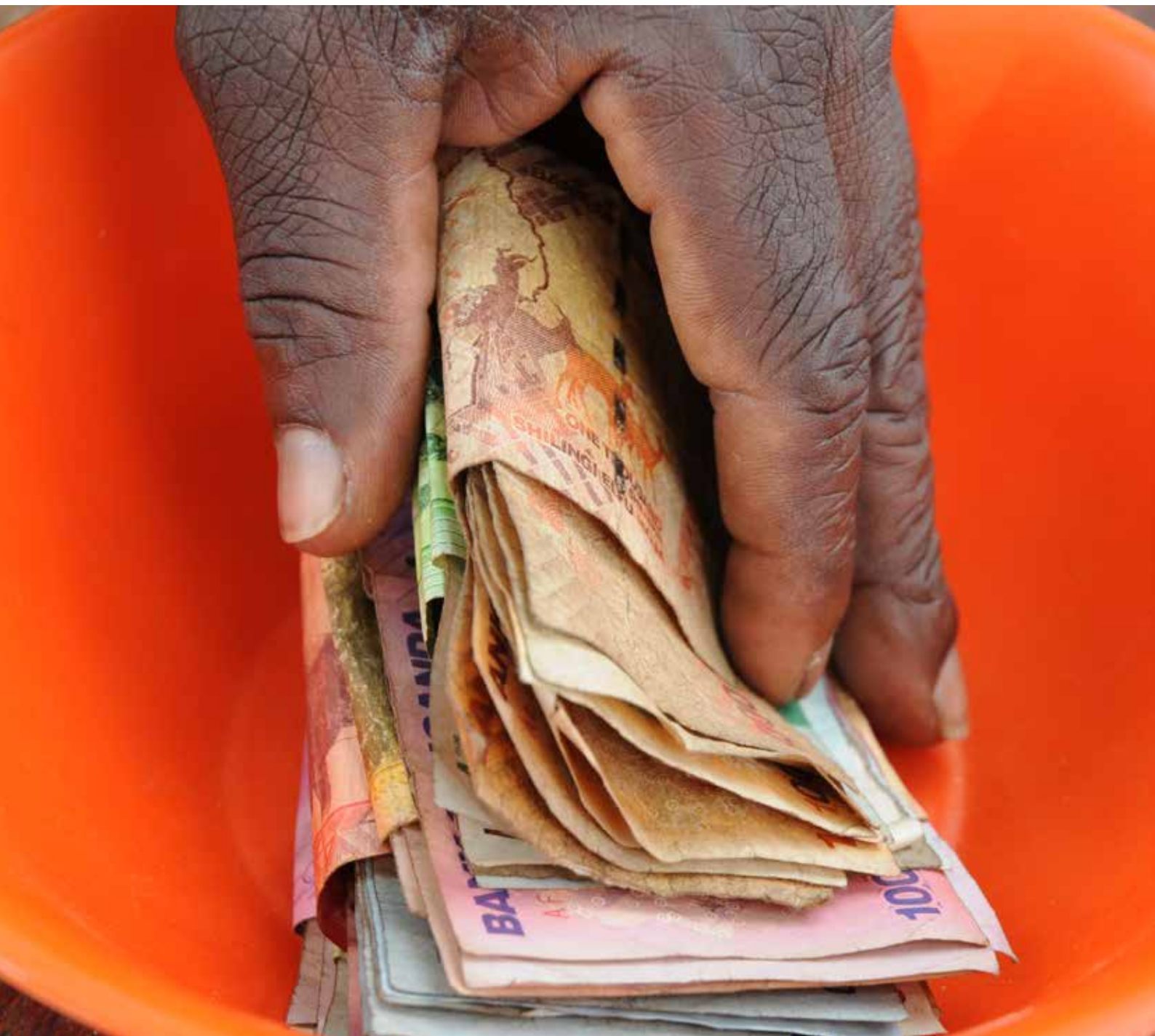


# Banking on Change:

## Breaking the Barriers to Financial Inclusion

---



In partnership with



# Contents

Foreword	1
Introduction	3
Barriers to billions: the challenge of financial exclusion	5
Banking on Change: a fresh take on banking	7
Bringing down the barriers	9
Lack of financial literacy	9
Gender discrimination	11
Age discrimination	13
Low and unpredictable income	14
Mistrust and inappropriate products	17
Commercial viability	21
National and international barriers and opportunities	23
Recommendations	24
Acknowledgements	26

---

Frontcover photo: Jon Spaul / Banking on Change

No part of this publication can be reproduced without permission.



# Foreword

## by Lord Boateng of Akyem and Wembley

---

As Co-Chair of the All Party Parliamentary Group on Microfinance, I am very pleased to open the timely discussion around this crucial subject. Whilst Europe and the US are in the grip of financial recession, seven of the world's top ten fastest-growing economies are in Africa. But, amidst this picture of economic dynamism, poverty and inequality remain high. The Democratic Republic of Congo (DRC) is a striking example: it is one of the top ten, but, at the same time, ranks at the bottom of the UN's Human Development Index.

How, then, can economic growth lead to sustainable development and better benefit poor people? Aid and foreign direct investment remain important for less developed countries, but growth at the national level is key to boosting spending on basic services and creating jobs. One way to achieve this, as noted by the Africa Progress Report<sup>1</sup>, is to give higher priority to facilitating domestic savings. Savings can ensure enough financing for capital accumulation, help to balance national books and expand investment. For poor individuals, savings can allow people to grow businesses, build assets and reduce their likelihood of suffering from shocks such as droughts.

It is a missed opportunity that there are an estimated 2.5 billion people<sup>2</sup> globally who do not have access to formal financial services. This represents a huge pool of potential savers who are not depositing in savings accounts or passing through other formal financial channels.

Across Africa, I have witnessed the potential that the 'unbanked' represent and how the developments in communications technology now offer opportunities for commercial and financial linkages. In the DRC, I have seen how farmers affected by conflict are rebuilding their communities by accessing finance and market information via mobile phone. In South Africa, Barclays through their subsidiary ABSA are reaching out to provide young people with financial services in the townships and rural areas. Whether in urban Soweto or rural Kwa Zulu Natal my experience in South Africa taught me that this can be transformational to the life chances of those who would otherwise be utterly marginalised. And I have powerful memories of a group of women savers in Mali singing joyfully under a tree. Their impressive savings are allowing them to better feed, clothe and educate their children.

The Banking on Change partnership between Barclays, CARE International UK and Plan UK is addressing the global challenge of financial exclusion. It is the first partnership between a global bank and NGOs to link informal Village Savings and Loans Associations to formal banking services. Building bridges between big banking and remote village communities, it points to a model for development whereby NGOs and the private sector together improve the lives of poor people and have positive results for business.

The initiative aims to break down some of the barriers that prevent poor people from accessing formal financial services and in doing so, proves that no one is too poor to save. The Banking on Change partnership has reached 513,000 people in just three years. On average, each member has saved \$58 per year. Multiplying this figure by the 2.5 billion 'unbanked' people could represent a total of \$145 billion that could be pumped into the formal economy each year.

The initiative also busts the myth that banks have no interest in meeting poor customers' needs. Barclays is exploring the boundaries of financial viability by designing and piloting new products

---

<sup>1</sup> The Africa Progress Panel, 'The Africa Progress Report 2012 - Jobs, Justice and Equity: Seizing Opportunities in Times of Global Change', 2012.

<sup>2</sup> Robert Cull, Asli Demirguc-Kunt, Jonathan Morduch, 'Banking the World: Empirical Foundations of Financial Inclusion', Massachusetts Institute of Technology, 2013.

and technologies to encourage poor people to benefit from the security a formal bank provides. The establishment of group accounts, which enable community savings groups to deposit larger amounts than they could as individuals, is just one example. Reaching more potential customers in remote areas through mobile platforms is also now being explored.

Banking on Change should inspire and catalyse further action by governments, banks and donors alike to break down the barriers to financial inclusion for poor people. As this report notes, financial inclusion and the partnership model adopted here should be high on the agenda of David Cameron and his colleagues on the UN High-level Panel that will consider what the next generation of Millennium Development Goals will look like.

Finding policy solutions to enable greater linkage between the untapped potential of informal savings groups with formal financial institutions could help begin to close the gap that exists between rapid economic growth in poor countries and continuing and unacceptable levels of poverty.

We should make good use of this report and like those inspirational women savers from Mali, sing out loud about the transformational benefits that linkages to financial services can bring.

### **Lord Boateng of Akyem and Wembley**



# Introduction

---

Governments, donors, and international financial institutions across the globe have increasingly recognised that access to financial services can play a pivotal role in poverty alleviation and in decreasing the vulnerability of poor people. Though never part of the Millennium Development Goals (MDGs) set in 2000, financial inclusion as an issue has moved up the agenda of emerging and developing countries, including at the G20 in 2011 and through the Alliance for Financial Inclusion<sup>3</sup>, which led to 35 emerging and developing countries' central banks committing themselves to financial inclusion in 2012.

Yet 2.5 billion people<sup>4</sup> remain financially excluded. In most developing countries, more than two-thirds of the adult population has no access to formal financial services, and in sub-Saharan Africa, financial exclusion is as high as 76 per cent<sup>5</sup>. Exclusion is typically highest amongst women, youth and the very poorest segments of society.

The low and unpredictable income of poor people makes it difficult for them to bank with formal financial institutions. Likewise, national and international banks have struggled to find a business case for reaching the world's poorest people given the expectations of their shareholders and the desire for sufficient profit margins. As a result, poor people have largely discounted formal financial institutions and vice versa. Instead, they have traditionally relied on potentially exploitative yet reliable moneylenders. The microcredit boom of the 1990s sought to engage poor people in the semi-formal financial sector, but some irresponsible credit lending by profit-oriented institutions has seen the sector called into question. There has also been increased recognition that poor people need a range of financial services not just credit, given that their incomes are 'low, unpredictable and irregular'<sup>6</sup>.

However, financial exclusion has led to the development of resourceful indigenous community-based solutions including savings groups. By saving small amounts (initially as little as 10-50 cents a week), groups gradually begin to save, and subsequently access loans from their own capital. Indeed there is something of a savings-led revolution now taking place across the world, with seven million savings group members<sup>7</sup>.

Savings rather than debt can smooth irregular income patterns and meet basic household consumption needs. Once a savings culture is established, some people go on to establish small businesses (and more would do this if they received business skills training and had access to higher amounts of capital). As group savings accumulate over time, the security of the money can become a challenge and the need for the safety of a formal financial institution becomes stronger. Savings therefore offer a stable springboard from which to begin the path to formal financial inclusion<sup>8</sup>.

In addition to the individual and community benefits of saving, there is also a wider question as to whether poor people's savings could support economic growth. The argument about the relationship between domestic savings and economic growth, and whether the former leads to the latter or vice versa, is central to development economics, and something economists have consistently debated since at least the 1950s.

---

<sup>3</sup> Alliance for Financial Inclusion is a global network of financial policymakers from developing and emerging countries working together to increase access to appropriate financial services for poor people.

<sup>4</sup> Robert Cull, Asli Demirguc-Kunt, Jonathan Morduch, 'Banking the World: Empirical Foundations of Financial Inclusion', Massachusetts Institute of Technology, 2013.

<sup>5</sup> Klapper and Demirguc-Kunt, 'Measuring Financial Inclusion: The Global Findex Database', World Bank Policy Research Paper 6025, 2012.

<sup>6</sup> See Collins et al, 'Portfolios of the Poor: How the World's Poor live on \$2 a Day', 2010.

<sup>7</sup> VSL Associates, Hugh Allen, September 2012. NESCO. This figure does not include other types of savings led schemes such as Self-Help Groups in India.

<sup>8</sup> Financial inclusion here refers to a state in which all working age adults have effective access to credit, savings, payments and insurance from formal service providers. 'Effective access' includes convenient and responsible service delivery, at a cost affordable to the customer and sustainable for the provider. <http://www.cgap.org/sites/default/files/CGAP-White-Paper-Global-Standard-Setting-Bodies-Oct-2011.pdf>.

Recently, a study on India<sup>9</sup> highlighted ‘the need to accelerate domestic saving to finance capital accumulation and foster higher income and growth’. It went on: ‘Most of the saving comes from the surplus household sector, and the deficit private corporate and public sectors draw on household saving to meet their investment requirements and finance the resource gaps’. That assessment clearly underlines the potentially positive use of savings, including poor people’s savings, to support economic growth.

The challenge is that mainstream financial institutions, governments and regulators are yet to take formal notice of the potential offered by poor savers. In response to this challenge, over the last three years, Barclays, CARE and Plan have developed an innovative partnership to extend financial services to poor members of society (the majority of savings group members live on less than \$2 dollars a day). This is in contrast to other efforts that have arguably expanded access for those on higher incomes<sup>10</sup>. By supporting the establishment of more savings groups, and exploring how to link them with formal banks, the initiative is proving that it is possible for a global financial institution to reach the poorest people with formal financial services.

Many obstacles remain and the Banking on Change partnership is continually learning from the journey it is on. This report outlines how the partnership has sought to tackle some of the barriers to financial inclusion it has faced. It challenges more governments, the private sector, NGOs and donors to work together to further break down these barriers, and open the door to both formal and informal financial services that poor people both want and deserve.

The key recommendations are:

1. **Ensure financial inclusion is part of the new UN Development framework:** the UN High-level Panel and member states should consider how increased access to financial inclusion could be a measure of progress towards more equitable and inclusive economic growth
2. **Recognise group banking as a springboard to financial inclusion:** formal financial institutions and regulators should formally recognise community savings groups and provide suitable products such as group accounts
3. **Build bridges between informal and formal financial sectors:** to meaningfully reach unbanked people, banks need to invest in this customer segment
4. **Invest in, and expand access to, financial literacy:** states should include financial literacy as part of their national curriculum and include financial information with any social assistance such as cash payments or pensions
5. **Develop strong checks and balances to protect poor and vulnerable people:** donors and governments should design and enforce consumer protection policies to protect poor people’s money.

#### Banking on Change key achievements

- > 513,000 members of 25,000 savings groups established in just three years
- > Average saving per member: \$58 per year
- > Multiplying this figure by the 2.5 billion unbanked people worldwide could represent \$145 billion in savings annually
- > 494 new group savings accounts established with Barclays branches in Kenya, Uganda, Ghana and Tanzania
- > In Uganda women increased their ability to influence men’s decision making by 33 per cent
- > In Peru female group members have increased their investment in small businesses by 47 per cent in three years
- > Four banking products have been created to answer the needs of poor customers; three different savings accounts and an overdraft facility.

<sup>9</sup> Tarlok Singh, ‘Does Domestic saving cause economic growth? A time-series evidence from India’, Journal of Policy Modeling, 2010. See also Carlos Pallordet, ‘Brazil’s dearth of domestic savings, a limit to growth’, March 2012 <http://byline.timetric.com/2012/03/23/brazils-dearth-of-domestic-savings-a-limit-to-growth/>.

<sup>10</sup> Johnson and Arnold suggest that expansion of the M-Pesa mobile banking platform in Kenya ‘has been concentrated on those who had similar characteristics to the banked, but were not previously using the services’, Development Policy Review, 2012.

## Barriers to billions: the challenge of financial exclusion

---

***‘More than 2.5 billion people have no bank accounts or insurance – services which can make the difference between surviving and thriving. Small businesses account for over 45 per cent of all employment in developing countries. Their growth is vital to creating jobs and increasing prosperity – yet they are typically stymied by difficulty in raising finance.’***

(DFID, ‘The engine of development: the private sector and prosperity for poor people’, 2011).

It is widely agreed that there are multiple barriers to poor people becoming financially included. And while obstacles and reasons vary between countries and regions, a number of common barriers emerge that generally represent a mix between supply-driven and demand-driven factors:

- Lack of financial understanding or information between providers and consumers
- Gender and age discrimination – research shows that women and young people are more likely to be excluded than others
- Poor people’s low income and erratic cash flow
- Lack of suitable products and processes from formal financial service providers that cater to the needs of poor people
- Geographic distances and high transaction costs for banks to operate in remote locations as well as high transport and opportunity costs for people to bank with formal financial institutions
- National and international policies that inhibit financial inclusion of the world’s poorest people.

It is important to recognise that these barriers are, in fact, self-perpetuating. Poor people are on the whole not considered viable clients for formal financial service providers. Thus, most of the banking processes and products that we see today have been designed specifically for the middle-income or high-income segment of

the population. This has then led to banks becoming concentrated in higher-income areas, leaving remote and low-income areas neglected, which in turn leads to the geographic distance barrier that we see today.

This isolation of poor people from formal banking means they do not have the opportunity to understand how banks operate. This in turn feeds misconceptions amongst poor communities about financial systems which can result in them excluding themselves from banking services. A needs assessment survey conducted by CARE in Ghana to understand the potential for linking groups to formal banks highlighted the reluctance of poor people to engage with local banks and microfinance institutions (MFIs)<sup>11</sup>.

Furthermore, many banking processes – such as complicated paperwork, a preference for banking with individuals over collectives, a debt-repayment culture centred around Equal Monthly Instalments, and the requirement for physical collateral – are designed for clients who can produce identity documents and salary statements, and demonstrate stable and regular income. Rarely do current banking products accommodate irregular or seasonal cash flows, and there are very few alternatives designed to identify incomes from non-formal sources or to replace physical collateral when a client has none to offer.

---

<sup>11</sup> David Akers’ report, ‘Needs assessment for linkage in Ghana’, 2011.

For financial institutions, avoiding such an apparently risky segment of the population and focusing on more proven and profitable segments appears to be a rational choice and a financial imperative in a competitive environment. But, by not innovating and not investing in the poorer segment of the population, is the financial services sector missing a promising opportunity and leaving behind millions of people who could both benefit from, and contribute to, healthy and inclusive economies?

The Banking on Change partnership has reached 513,000 people in just three years. On average, each member has saved \$58 per year. Multiplying this figure by the 2.5 billion 'unbanked' people could represent a total of \$145 billion that could potentially be pumped into national economies<sup>12</sup> each year. In addition to accruing savings, the partnership has also seen how increased sums have become available for business development and economic growth. For example, in Uganda, by encouraging savings group members to invest more money in their productive assets and train them in business skills, they increased the amount of money spent on their businesses by 28 per cent in three years. If even 10 per cent of existing Banking on Change savings group members started or grew their businesses, with the help of savings and additional business training,

economic activity would increase by tens of millions of US dollars<sup>13</sup>.

The Banking on Change experience shows that very poor people do have the capacity to save and are highly creditworthy – repayment rates on the loans provided to each other in the savings groups in Banking on Change countries and more generally in Village Savings and Loan Association (VSLA)<sup>14</sup> groups range from 98 to 100 per cent. In the absence of formal banks in many parts of the developing world, MFIs have emerged as credible alternatives and have grown substantially over the last two decades. However, MFIs tend to focus on a segment of the population who, though excluded from formal financial services and far from wealthy, are rarely the very poorest. And in recent years, an over-reliance on private capital, emphasis on increasing profit margins and compromises on client protection principles have also demonstrated the limitations of these institutions.

There is clearly a need for further investment in an approach which can simplify banking processes, invest in communities' capacity, and acknowledge the strengths of local institutions while still developing a sustainable business model for offering financial services to poor people.

<sup>12</sup> The USD58 saved per member reflects a weighted average annualized saving per member across the Banking on Change countries in Africa, calculated using the programme's Monitoring and Information System for Village Savings and Loans Associations over a sample period (Sept-Dec 2011). This saving is calculated as follows:  $\text{USD } 58 \times 2.5 \text{ billion} = \text{USD } 145 \text{ billion}$  per member to date.

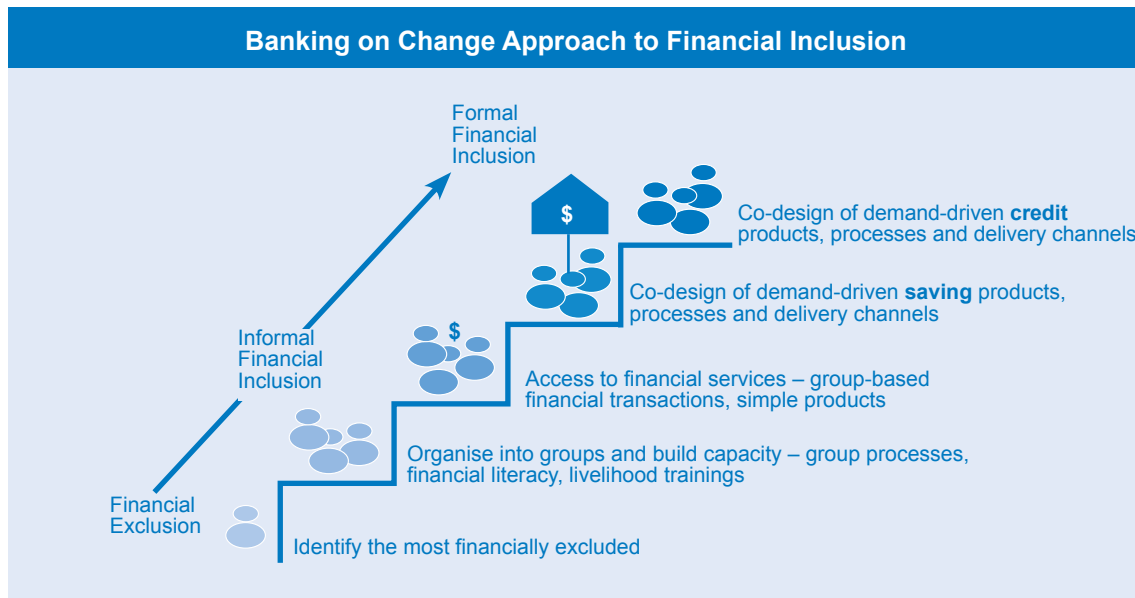
<sup>13</sup> The Banking on Change partnership estimates that over the next three years existing and new members of groups could establish around 44,000 businesses. Existing work indicates that these businesses would have an average turnover of over \$40 a month. This would imply an aggregate annual turnover of over \$20 million a year.

<sup>14</sup> Village Savings and Loan Associations were first developed by CARE in Niger in 1991. They are groups of 15 to 30 members (men and women) who form and follow their own constitution. They carry out saving and lending activities within the group. There are elected office bearers to manage activities and keep records. VSLAs operate generally for a year and then dissolve by sharing out the entire sum among the members in proportion to the individual savings of each member, before starting a new cycle. The savings of members grow on account of the interest charged and penalties for rule violations.



# Banking on Change: a fresh take on banking

Banking on Change is an initiative by Barclays, CARE and Plan to address financial exclusion by taking a fresh approach. It has been implemented in 11 countries<sup>15</sup>, mainly in Africa, and challenges traditional banking practices such as individual banking and traditional methods of client acquisition and servicing. It focuses on combining CARE and Plan's knowledge and understanding of communities with the financial expertise of Barclays to develop innovative solutions.



The primary effort is expanding access to services to mobilise savings rather than credit. This builds on CARE's and Plan's belief that for very poor people, the right approach is to begin by building their financial assets and skills through savings, rather than debt.

Banking on Change works through local organisations and members of the community to engage and train poor people. It relies on the tried and tested methodology of VSLAs. VSLAs have a unique ability to support both the social needs of communities (the groups agree to save a certain amount collectively for a 'social fund' which acts as a type of insurance as well as building social capital within communities) and provide a valuable source for investment in their businesses (the pool of savings can be

accessed by everyone throughout the year). As such it can be argued that they have a 'competitive advantage'<sup>16</sup> over other forms of savings and credit groups which might only enable members to access funds once a year.

The partnership also provides additional services in the form of income-generation training and business management skills to teach people how to effectively manage businesses and utilise credit. Furthermore, Banking on Change has taken a gradual approach to supporting people to move up the financial ladder and has emphasised scaling up access to basic community-managed savings groups as a springboard to accessing formal financial products and services.

<sup>15</sup> Banking on Change was implemented in: Africa (Egypt, Ghana, Kenya, Mozambique, Tanzania, Uganda, Zambia); Asia (India, Indonesia, Vietnam); and South America (Peru).

<sup>16</sup> Phrase used by Hugh Allen, founder and CEO of VSL Associates, at The Guardian, November 2012.

By focusing on savings and targeting poor people that even MFIs are not reaching, the Banking on Change programme is perceived as a key partnership within the broader VSLA movement<sup>17</sup>.

Barclays employees directly engage with savings groups to understand their financial requirements. This understanding combined with a market assessment forms the basis from which CARE, Plan and Barclays have co-developed new products or adapted existing ones to suit groups' needs.

As a result, group-based savings accounts are being piloted in four countries based on direct delivery through bank branches. In addition an overdraft facility has been launched in Uganda. Using a stepped approach the rationale behind an overdraft product was that it is a credit mechanism over which the group retains a high level of control. The overdraft facility is viewed as part of a complementary range of financial products and services required by poor people together with the VSLA, not necessarily as a replacement.

The results are encouraging; Banking on Change has both out-performed the targets it set itself around the scale-up of community groups and demonstrated a possible bridge between informal savings groups and Barclays.

To date, the linkage component of Banking on Change has proved to be a model that works. Group members welcome the fact that they can keep their funds in a safe place and that they are treated as equals by the bank. The trust that is being built between the groups and the bank also enables members to demand further services, particularly access to credit as they wish to obtain larger amounts of money, and products which are more flexible (i.e. ones that allow them to have a longer term repayment facility). In Uganda and Kenya particularly, there has been overwhelming demand for credit products since the linkage process started – demonstrating the interest of people in getting access to more formal financial services. CARE, Plan and Barclays have been working cautiously to come up with suitable savings and credit products.

---

<sup>17</sup> Triodos Facet, 'Banking on Change Evaluation', December 2012.

# Bringing down the barriers

---

***‘Financial inclusion is no longer something that is “nice to do” but is now an essential part of the global economic development agenda. It is a public policy issue that we regulators cannot shy away from.’***

Njuguna Ndung’u, Governor, Central Bank of Kenya<sup>18</sup>

The Banking on Change partnership has attempted to address multiple barriers to financial inclusion, described in the following pages.

## Lack of financial literacy

### The barriers

The financial isolation of poor people often results in their lack of financial understanding, which in turn leads them to further distance themselves from formal financial institutions. A study of how VSLAs could link to financial institutions in Kenya<sup>19</sup> found that, although banks had some products which were suitable for the needs of poor people, the same people had either no knowledge, or an incorrect understanding, of those products and hence were reluctant to use them. Evidence also shows that poor financial literacy represents a significant barrier to accessing and properly using formal financial services<sup>20</sup>. Poor financial literacy limits people’s capacity to be aware of financial opportunities, make informed choices, and take effective action to improve their financial well-being. Adolescent girls in particular stand to gain from financial education, as it mitigates their vulnerabilities from sexual and domestic violence, school dropout, illiteracy, early marriage and pregnancy.<sup>21</sup>

### What Banking on Change did

***‘The Bank of Uganda is working on financial education curriculum in schools. We intend to roll out programmes in the villages too, targeting organised groups like boda bodas, engineers, teachers, so that people can make informed choices’***, Mackay Aomu, Bank of Uganda, speaking at a Banking on Change roundtable in Kampala, December 2012.

Using VSLA methodology as a first step helps to address the barrier of inadequate financial understanding, because after joining the group people are systematically trained over a period of one year. Through the training, group members are quickly able to manage transactions, make decisions on who in the group should take out the next loan, and determine interest rates and a repayment schedule. This financial education helps poor people understand the importance and basic mechanics of finance. It helps VSLAs evolve into small, informal fund management institutions wherein people are able to raise funds in the form of savings, take decisions on the effective deployment of funds across members, ensure timely recovery and share the dividends at the end of the savings cycle.

Much of this training is delivered by so-called Village Agents, who are often members of the local community, and are paid on a fee-for-service basis – thereby creating incomes and jobs.

---

<sup>18</sup> Quoted in ‘The 2011 AFI Global Policy Report Forum’.

<sup>19</sup> M2i Consulting, ‘Market Research and Product Development for Linking VSLA Groups to Financial Institutions’, 2011.

<sup>20</sup> ‘The G20 and Financial Inclusion: Perspectives and Suggestions from Developing Countries of the Commonwealth and Francophonie’, commissioned by the Commonwealth Secretariat and La Francophonie, 2011

<sup>21</sup> Population Council, ‘Building Assets for Safe, Productive Lives: a Report on a Workshop on Adolescent Girls’ Livelihoods’, New York, 2005.

In Peru, the Banking on Change partnership implemented a financial literacy programme with women beneficiaries of a national social protection programme called Juntos<sup>22</sup>. Greater financial education saw the number of women who were keeping their savings in a bank increase from 27 to 71 per cent. Building on this success, several departments within the Peruvian government – including the Ministry of Agriculture – have expressed an interest in adopting and rolling out financial education at a national level.

Further evidence from groups involved in the Banking on Change partnership in India similarly suggests that with increased education, communities are able to better understand the financial products and services available to them, and see the benefits of the return on savings. One year of this type of training resulted in some groups managing to double their weekly savings from \$2 to \$4\* over one year. Indeed, the Banking on Change partnership has seen that the return on savings in its different groups ranges from 20 to 100 per cent per year. This significantly encourages people to continue increasing the amounts that they save.

Financial literacy is particularly important as it is intrinsically linked to consumer protection. With greater knowledge people are less likely to fall victim to unscrupulous moneylenders, or financial service providers who might be offering inappropriate products, with no transparency and high interest rates. Increased financial education is also in the interests of banks and other providers, as people who are financially educated are more likely to use formal financial services. The groups who are part of the Banking on Change linkage pilots in Uganda, Ghana,

Kenya and Tanzania, and who have been linked to Barclays branches, all receive additional training in the role of banks and the types of products they offer before deciding whether to bank at Barclays. Those who choose to open a savings account at Barclays receive a further training on the process and procedures.

### **The remaining challenges**

Scaling up financial literacy to reach the 2.5 billion people who are financially excluded remains a huge challenge. There is an urgent need to invest in expanding access to financial education for poor people, especially women. Who will invest in this financial education? Who will enable the next generation to gain skills that will allow them to access financial services and in turn invest in their businesses and support their family's development?

Few countries have so far adopted financial education in their curriculums. Building financial education into the school curriculum, or running awareness campaigns for young people, can increase understanding and inculcate financial habits from an early age. Mass awareness campaigns on financial education in a focused way, followed by training by banks and other stakeholders, show a demonstrable impact. With regard to consumer protection of poor customers, some initiatives are emerging, including for example the global Smart Campaign. This aims to improve the protection of customers using MFIs, by certifying those institutions that endorse and apply certain principles<sup>23</sup>. However, far broader and deeper financial education and protection will be necessary for poor customers in future.

---

<sup>22</sup> Juntos is a Conditional Cash Transfer Scheme in Peru targeting over 600,000 extremely poor women. Banking on Change Peru is a consortium of institutions (Juntos, CARE, the Ministry of Agriculture and Banco de la Nación) working together to enhance access to financial services for the poorest households.

<sup>23</sup> Smart Campaign Client Protection Principles: Appropriate product design and delivery, Prevention of over-indebtedness, Transparency, Responsible pricing, Fair and respectful treatment of clients, Privacy of client data, Mechanisms for complaint resolution <http://www.smartcampaign.org/about-the-campaign/campaign-mission-a-goals>  
This webpage is about the smart campaign mission – the page with the client protection principles is: <http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>.

\* \$2 = INR109 as of 10/01/2013

## Gender discrimination

### The barriers

Research shows that women reinvest up to 90 per cent of their income in their families, compared with 30 to 40 per cent by men<sup>24</sup>. Despite this, and despite being recognised across the world as a better credit risk, women are more likely to be financially excluded than men. In developing economies, 46 per cent of men report having an account at a formal financial institution, while only 37 per cent of women do<sup>25</sup>. In Kenya for example, it has been found that men are more likely to use banks while women predominantly use the informal sector<sup>26</sup>.

The unfair and unequal distribution of power, resources and responsibilities in favour of men often leads to discriminatory policies and procedures, which inhibit women's access to finance. For example: financial products like bank accounts sometimes require the husband's signature, or evidence of property rights; gender norms that limit women's mobility can restrict their access to the public space of a bank; and lower wages and income can make bank accounts unaffordable for women. In Africa for example, women own just one per cent of agricultural land, receive only seven per cent of extension services (e.g. scientific research and new developments) and access less than 10 per cent of agricultural credit offered to small-scale farmers<sup>27</sup>.

Nonetheless, it is recognised and appreciated that women can be a powerful force for economic growth as labourers, property owners and entrepreneurs. According to the Food and Agriculture Organization of the United Nations (FAO), closing the gender

gap in agriculture – or increasing women's contribution to food production and enterprise by providing equal access to resources and opportunities – could reduce the number of hungry people in the world by 12 to 17 per cent, or by 100 to 150 million people. Women need increased access to financial services and labour markets, and the right to own land and property in order to increase their economic productivity and secure their basic human rights.

### What Banking on Change did

***'I now have the ability to lead the people. I am chair-person of our group. Women in the community elected me to be a councillor for two parishes at the sub county level. When I joined the [savings] group I was identified as a very hard working lady, the members encouraged me to stand and I won the election. I am also treasurer of the farming co-operative'***,  
Agudo Desta, member of a Banking on Change savings group in Uganda.



Agudo Desta, surrounded by her children and the orphans who she also cares for

<sup>24</sup> Phil Borges, 'Women Empowered: Inspiring Change in the Emerging World', New York, 2007. In addition, in a separate CARE study on VSLA use in Mali, 65 per cent of women reported using income on education spending, 82% reported health expenditure for self and family and 87 per cent on clothing, 15 per cent reinvested income in their income-generating activities (MTR synthesis report, CARE Norway, 2012).

<sup>25</sup> Klapper and Demircuc-Kunt, 'Measuring Financial Inclusion: The Global Findex Database', World Bank Policy Research Paper 6025, 2012.

<sup>26</sup> Johnson and Arnold, 'Inclusive Financial Markets: Is transformation Under Way in Kenya?' Development Policy Review, 2012 states that men in Kenya use banks and SACCOS (Savings and Credit Cooperatives) whereas women predominantly use the informal sector – MFIs and ROSCAs (Rotating Savings and Credit Associations).

<sup>27</sup> ILO, 'Global Employment Trends for Women', Geneva, 2009.

The participants in Banking on Change reflect the global trend that sees women predominantly using informal systems, with VSLA membership being on average 70 per cent female. Banking on Change is seeking to reverse this global pattern by encouraging women to graduate from savings groups to access formal financial services.

In addition to the obvious benefits of being able to save or receive funds and develop businesses, women's access to finance has important long-term social outcomes.

It has been observed that access to finance has given women a new-found confidence with many becoming leaders in their community<sup>28</sup>. Women have also increased their purchasing power, obtaining goods formerly owned only by men, and enhanced their level of decision-making power within the household. In Uganda for example, women members of Banking on Change groups have become increasingly empowered over the last three years; indicators show that they are better able to influence their spouse's decisions (from 29.8 to 39.7 per cent), and exert a stronger influence in making important decisions in the community (from 22 to 28 per cent). Women's control over financial resources also increased from 65.5 to 70 per cent and gender-based violence against women reduced from 22.3 to 17.9 per cent. Other Banking on Change countries show similar trends.

## The remaining challenges

Whilst most of the evidence shows positive changes for women, the Banking on Change partnership wishes to explore further whether participation in the programme might place too great a burden on women's time. There is anecdotal evidence beyond the Banking on Change programme that in some instances women's increased empowerment can create tensions rather than benefits within the household as men see their traditional roles challenged. As a result the programme is looking to place emphasis on sensitising more men in the VSLAs in the future – both to raise their awareness of the importance of having their wives engaged in financial access activities as well as to increase wider community understanding of the benefits of VSLAs for men and women.

In addition, there remains a pressing need for increased global attention to gender inequality and implementation of national legislation to help achieve this. As noted by Kofi Annan, ***'There is no tool for development more effective than the empowerment of women'***.

---

<sup>28</sup> In Burundi for example, in the 2010 elections, 518 women (of whom 265 were VSLA members) were elected into village council structures (MTR synthesis report, CARE Norway, 2012).

## Age discrimination

### The barriers

Young people also face significant barriers to financial inclusion, representing huge opportunity costs for the global economy. Over 1.2 billion people are aged 15 to 24<sup>29</sup>, yet only 4.2 million young people have access to financial services<sup>30</sup>. Worldwide, unemployment rates for young people are about two to three times higher than for adults, and poverty is widespread. Even among working youth poverty is high, as 28 per cent of young workers are being paid less than \$1.25 a day<sup>31</sup>. The fact that many young people lack the resources to support their families also means the adverse conditions they face are more likely to be passed on to their own children.

Access to appropriate financial services can play an important role in supporting young people's transition into adulthood, helping them to start their working lives effectively and supporting them to become productive and economically active members of their communities and societies. Access to savings services in particular encourages asset building and promotes sound money management skills, likely to continue for a lifetime.

The general perception is often that young people have no need to handle money and that they only engage in very limited financial transactions. Recent research demonstrates, however, that this is not the case. Surveys show that young people of all ages handle money on a regular, often daily, basis and many of them prioritise saving some of their money in order to support goals such as being able to pay for school supplies and fees or starting a business<sup>32</sup>.

Formal financial service providers tend to view young people as overly risky and unable to manage money, and for those under 18, there is often a legal barrier to opening a formal account. This means that young people are forced to save informally. Informal saving is challenging, as funds are often diverted for immediate consumption needs, and accumulated savings can put young people at risk of theft. Young people are also more likely to migrate in search for work, making it more difficult for them to consistently access informal mechanisms such as community-based financial services. Many also lack an adequate understanding of financial transactions, which along with their vulnerable social position as young people makes them more susceptible to exploitation.

An increasing number of organisations and financial service providers are exploring ways to reach young people and cater to their particular needs. However a broader re-think of approaches, products and policies will be needed to significantly expand youth financial inclusion.

### What Banking on Change will do

In its next phase, Banking on Change will seek to address some of the key barriers faced by young people, supporting youth savings groups and helping young people acquire the skills they need to manage their money and engage in sustainable economic activities. This generation deserves an opportunity to manage their own resources and to be offered products and solutions that meet their specific needs and demands.

<sup>29</sup> UNESCO, 'The 2012 EFA Global Monitoring Report: Youth and skills – putting education to work', 2012.

<sup>30</sup> Making Cents, 'State of the field in Youth Enterprise, Employment and Livelihoods Development', 2010.

<sup>31</sup> UNESCO, 'The 2012 EFA Global Monitoring Report: Youth and skills – putting education to work', 2012.

<sup>32</sup> Save the Children, 'What do Youth Savers Want: Results From Market Research in Four Countries' 2012.

# Low and unpredictable income

## The barriers

Approximately 30 per cent of people around the world who currently have no access to formal financial services report that the lack of sufficient funds to hold a bank account is the biggest barrier to financial inclusion<sup>33</sup>. Surveying a sample of the groups reached through Banking on Change, 36 per cent of group members reported low income as a key barrier to financial inclusion<sup>34</sup>.

Poor people often do not believe they have enough income to transact with formal financial institutions and are concerned about requirements around collateral. Irregular and unreliable cash flows further dissuade poor people from availing themselves of formal financial services, despite the fact that the services of a bank account are very useful for people with fluctuating cash flow. Studies in Kenya show that people with more stable incomes are more likely to be financially included, even though these people can arguably cope better without banking services, precisely because their income is more predictable.

## What Banking on Change did

The gradual approach to financial inclusion offered by Banking on Change helps to address the barrier to inclusion presented by low and unpredictable incomes. The use of the VSLA methodology as a precursor to entry into formal financial services helps groups mobilise even the smallest amounts of savings. These small savings are then pooled and rotated within the VSLA group. Small sums accumulate, however, and in less than three years the groups established by Banking on Change have saved nearly \$30 million<sup>34a</sup>.

This clearly demonstrates that with better financial management skills, even people with very small and unpredictable incomes are able to put themselves in a position where they can invest more in their families and their income-generating activities. They can also become prospective customers for formal financial service providers like banks.

Banking on Change has also made attempts to counter the cyclical or unpredictable nature of many group members' household income. In Zambia, VSLA members started timing their savings cycle to coincide with agricultural cycles. The members agreed to divide surplus funds in November so that they could use the money to procure inputs such as seeds and tools at the start of the agricultural season. Also in Zambia, people took out loans from the VSLA to purchase mobile phones which they used to find information about the market for their crop and realise better prices.

Those living on low incomes have also been able to use their savings to improve their resilience to social and environmental shocks such as funerals or droughts. VSLAs act as a 'social safety net' and can be linked to wider national social protection programmes to support the most vulnerable. Groups regularly put money aside each month into a 'social fund' to be shared out when individuals need it. In Ghana, this pool of money enabled people to buy National Health Insurance cover, even when they did not have access to a regular income throughout the year.

Building on its success, Banking on Change will continue to develop further access to financial services and training over the next three years, helping people to access a broader range of more flexible products enabling them to increase their incomes and investment in small businesses.

<sup>33</sup> Klapper and Demirguc-Kunt, 'Measuring Financial Inclusion: The Global Findex Database', World Bank Policy Research Paper 6025, 2012.

<sup>34</sup> Banking on Change client sample survey on reasons for financial exclusion, 2012.

<sup>34a</sup> This is calculated by multiplying \$58 (the average annual saving per member) by 513,000 savings group members.



In addition to basic financial education, Banking on Change offers business management skills in the form of basic training on the management of simple productive activities. These skills enable VSLA members to effectively put the funds they save and borrow towards income-generating activities. In Peru for example, female participants in the programme have increased their investment in small businesses by 47 per cent over the course of the three years. Those investments have been funded through savings (56 per cent), independent income (41.5 per cent) and credit (2.5 per cent). This highlights the strong capacity poor people have to build on even limited resources and assets.

### **The remaining challenges**

Clearly people living on low incomes can feasibly become financially included. However Banking on Change has confirmed that poor people need a range of products and services, provided by the state and the private sector, if financial inclusion is to effectively enable them

to lead dignified lives and, where possible, to contribute to economic growth. Simply providing a poor person with a bank account will not be enough.

In India, over 100 million 'no frills' bank accounts remain unopened, because the providers and the state haven't tackled the related barriers to enable poor people to use them. States, financial service providers and NGOs will need to work collectively to develop the necessary financial ecosystem that will enable low-income savers to become more active in the formal economy.

This means supporting increased financial literacy, business skills training and livelihood programmes to facilitate market access (particularly for poor people living in rural rather than urban areas). It also means considering how to protect very vulnerable people, who might not be economically active (for example, elderly or disabled people), with appropriate social protection policies such as pensions and micro-insurance products.

Photo: Jon Spaul/Banking on Change



Sarah Mutanda

**Sarah Mutanda, 23, Buwologoma Village, Gemakumwino VSLA, Uganda**

*'Now it is very rare to see a child who doesn't go to school if their father or mother is in a VSLA.'*

Sarah has four boys and one girl aged between ten years and 18 months. Before becoming involved with Banking on Change, Sarah was a farmer and had no regular source of income because she could only sell her crops at the end of the season. *'Each season, prices were low and fluctuating,'* she says. *'I couldn't sell all my harvest as I needed to keep some to feed my family.'* Sarah is still a farmer, but since joining her local VSLA group through Banking on Change she has begun selling petrol, and rearing and selling livestock, and her income is more regular. Sarah bought a first cow with her first share of the group's savings and now owns two cows and a bull, as well as a motorbike which she rents out to a local driver who uses it as a taxi. With her next share of the groups savings Sarah says, *'I plan to buy a fridge as there will soon be electricity in our village – I have spotted an opportunity to sell cold drinks.'*

**Training**

*'The skills training made me realise the need for an enterprise which would provide a daily income. So I sold some of my cows and bought a motorbike.'*

**Banking**

Sarah used to have 'ill feelings' about banks. *'I believed the charges were unaffordable. The bank was also very far away. I thought banks are not for people like me. They are for rich people, and people with big businesses.'* Now her group's savings are banked, she feels relief. *'As treasurer, I felt unsafe keeping the money. It was dangerous. Now the group agrees to pay me or the other two signatories to travel to the bank to deposit or withdraw money'. 'Before, I didn't feel secure keeping so much money. Now the group has confidence in the bank because since the start there have been no problems. Our money is always available when we want it.'*

**Improved life**

*'Now it is very rare to see a child who doesn't go to school if their father or mother is in a VSLA.'*

*The group has empowered us, especially the ladies, to do business. Saving has forced us to be enterprising and do business, to generate money to save at each meeting.'*

**Family**

*'We can now afford basic health care. I can see the difference between my family's good health and those of my neighbours who aren't in the savings and loans group. I see other children chased from school for not owning a book. I feel relief that this is not my children anymore.'*

## Mistrust and inappropriate products

### The barriers

Lack of understanding about the formal financial sector along with a lack of suitable products and processes that cater to the needs of poor people mean there are limited opportunities for them to engage. This is despite the fact that research increasingly shows poor people do want to access a range of financial products beyond savings and credit, including insurance and pensions – a trend that is already being seen in India.

### What Banking on Change did

*‘At first the members were kind of nervous, but we helped them believe they are supposed to be here’*, Abdullah Bukenya, Barclays Branch Manager in Soroti, Uganda.

Banking on Change has tackled this barrier head on. The partnership facilitates the direct interaction of the bank with the community. In Kenya for example, Barclays employees spent time with VSLA members gaining an in-depth insight into the strengths and limitations of VSLAs and understanding how a service offered by the bank could provide an opportunity for the groups. The meetings also provided an opportunity for the VSLAs to better understand banks and the banking process and to dispel long-standing myths.

Meanwhile, constant interaction with CARE and Plan helped Barclays to understand VSLAs’ requirements and enabled them to come up with more customised saving products for groups. Uwezo in Kenya is one such saving product. Usually banks only accept individual accounts, but Barclays adapted their procedures to find a workable solution. In the past, formal registration with the Chamber of Commerce would be required to open a bank account.

Instead, Barclays has started to accept a photocopy of the savings group’s constitution, signed by all members, as the necessary identification. This document is also sent to the relevant ministry for legal recognition. Banking on Change is therefore making extensive efforts to demonstrate the potential that group savers represent in developing countries.

#### The Barclays Kenya Uwezo account features and requirements

- Free withdrawals and free deposits
- Cheque book (excluding stamp duty) charged once, renewal free
- No maintenance fee
- Opening balance Kenyan Shillings 2,000 (around \$23)
- Interest paid monthly, calculated daily with rate up to 2.5 per cent per annum.

#### Process of opening Uwezo account

- Copy of Group’s constitution for Registration Certificate (Ministry of Social Services and Development)
- Original identification documents; National ID or passport
- Minutes of the groups specifying the signatories and mandates.

The process of linking members of informal VSLAs with Barclays branches is guided by the use of a set of Principles, originally developed by CARE, who first began linking savings groups with other national, rather than global, financial service providers. These Principles are essential to ensure that both the group members and the bank truly benefit from the experience and that sustainability is guaranteed.

### Principles for linking VSLAs to formal financial institutions

- Groups are linked, not individuals
- Linkage is demand-driven not supply-driven
- Core principles of VSLA methodology are upheld<sup>35</sup>
- Emphasis on member savings is maintained (i.e. linkage is savings-driven and always starts by offering savings products)
- Member savings are not held as collateral
- Only mature groups are linked
- Groups are prepared on linkage before linking them
- A conservative savings to credit ratio is maintained.

Similar products to the Uwezo account have been designed by Barclays in Ghana and Uganda. In Uganda, CARE and Barclays conducted market research for new products, trained communities in using deposit accounts, and helped local NGO partners to prepare VSLAs for opening accounts. Before the first group account was opened, Barclays branch employees were also trained in the best way to deal with this new segment of customers.

To offer these products, Barclays has worked to customise its process to fit the needs of the people. Some of the features include no minimum balance, no charges on savings accounts and simple processes for opening group accounts. The overdraft facility designed in Uganda is an example of an appropriate service for people with strongly fluctuating incomes, because the groups will only borrow the amount that they really need and only pay interest on that.

What's more, the products are part of Barclays mainstream business at country level and thereby allow VSLAs to be part of the formal financial sector like any other client. All products are based on the principle that they must at some point be commercially viable for Barclays. Barclays recognises there is a business potential coming from this largely unbanked informal sector of the population. As Michael Kaddu from Barclays Uganda has said, **'working on Banking on Change with CARE and Plan has helped us realise that our core business is relevant to communities'**.

### Features of Barclays overdraft product in Uganda

- |                  |                                                                          |
|------------------|--------------------------------------------------------------------------|
| • Product type   | Cash secured                                                             |
| • Product tenure | 3 months and 12 months maximum                                           |
| • Interest rate  | 8 per cent p.a.                                                          |
| • Payment method | Monthly instalments                                                      |
| • Documentation  | Group resolution to borrow, application form, valid IDs for signatories. |

The key to this success has been the high level of trust that both local communities and Barclays have in their NGO partners. Barclays employees in the countries where the Banking on Change partnership operates have also expressed greater confidence in the community and their business and financial management skills. Thus, the barrier of lack of trust and confidence has been broken.

As for the community, these linkages provide some unexpected benefits, highlighted in a preliminary case study from Uganda:

- VSLA members increased the amount of savings within their groups as members were no longer concerned about the

<sup>35</sup> These principles include: • Savings-based financial services with no external borrowing by, or donations to, the loan portfolio • Self-management (i.e., by the members themselves) • Simplicity and transparency of operations • Flexibility in loan amounts and terms: Today's VSLA clients can borrow up to three times the amount they have saved for up to three months during the first year and, in time, for up to six months • Low group management costs (close to zero) met through group earnings. This results in high net returns from loans • The retention of VSLA earnings within the group and local community. (State of the Sector report, CARE Access Africa, 2009.)

safety of their money (in Uganda, VSLAs who have been linked to Barclays have increased their savings by 34.5 per cent)

- Loan defaults within VSLAs dropped as groups perceived themselves to be more formalised and felt a greater sense of responsibility
- Individual VSLA members diversified their businesses and profitability improved
- Individual VSLA members gained the confidence to open their own personal bank accounts
- The community's confidence was enhanced and they had a greater sense of belonging, identity and self-esteem.

Facilitating access to linkage also has benefits for remote branches (who do not have large numbers of middle or upper income clients). Banking on Change has found that the overall turnover is higher in branches where VSLAs have been linked than in others, suggesting that poorer clients are able to tip the balance and make the branch more financially feasible. As Abdullah Bukenya, Barclays Branch Manager of Soroti in Uganda, mentions: ***'They [the VSLA members] are good potential. When you look at their savings, they keep growing. We are impressed. We see them as individual customers'***.

Thus far in these early attempts to link groups with Barclays branches, across the four countries where linkage has been trialled, a total of 494 groups made up of 15,516 individuals have been linked. Together these groups have deposited \$103,694 into accounts, showing that linkages with a global bank are possible when done in a controlled and responsible way.

In Kenya, Barclays has begun to design a mobile phone service that will enable groups to link with the bank. Groups receive training on how to use the mobile transfer facility before they can start using a mobile phone to deposit their savings in a Barclays branch.

## The remaining challenges

Despite their incredible potential to answer people's needs in terms of basic savings and credit services, savings groups are rarely formally recognised, and formal recognition is not yet part of many countries' inclusive financial strategy. Savings groups should not be regulated per se as it would add a significant burden to their operations (e.g. they would need to send financial reports and confirm their status with the central bank), but they should be recognised so that they can more easily access formal financial services.

Many people question whether this population is too poor to save, but evidence suggests otherwise. A key feature of poverty is sporadic, irregular seasonal income, which poor people must make last throughout the year. Having access to simple saving mechanisms helps families get through difficult times and enables them to smooth their consumption throughout the year to avoid the worst of the lean season and/or to deal with emergencies without having to sell their productive assets. Poor people have a large range of needs at different levels that should be answered through a holistic approach, including different kinds of services (savings, credit, remittances, insurance) instead of focusing on one particular temporary need.

Technology can take products to scale, but it is not currently spreading at the same speed in all countries. In Kenya for example, 89 per cent of the population is familiar with Payment to Person (P2P) services – especially 'M-Pesa' – of whom 68 per cent are frequent users, making the east African nation the top scorer on the Consumer Readiness Component<sup>36</sup>. Uganda is also becoming more connected but these two countries remain the exceptions rather than the norm. In addition, as suggested earlier in this report, whilst technology can take banking to scale it will be important to ensure that it reaches the very poorest members of society.

<sup>36</sup> Mastercard Mobile Payments Readiness Index <http://mobilereadiness.mastercard.com/the-index/>.

In addition to seeking technological solutions, greater linkage between informal savings groups and formal banks could be facilitated through the 'business correspondent model' where an individual from a savings group becomes an agent for the bank, and can then deliver services in the community. These individuals are paid a fee. In India, some savings groups or 'Self-Help Groups', as they are known, are linked to Bank Correspondents (BCs). They are generally local individuals, such as a shopkeeper, who will offer most of the services a group needs (such as deposits, withdrawals and transfers).

After the group has opened a bank account at a bank branch, groups near a BC can then do all their banking locally or are visited by the BC in their community. This means that groups face neither the costs of using a mobile wallet nor the risks of carrying money to and from bank branches, because the BC is nearby. Banking on Change's experience in India shows that such a model requires strong business development commitment by banks. Africa could benefit greatly from the Indian experience as community-based trainers – properly trained to understand the financial sector and able to deliver services on behalf of the bank – could act as similar BCs.

## Commercial viability

***‘Banking on Change started as corporate social responsibility activity and is now moving towards a core business stream.’***

Michael Kaddu, Head of Corporate Affairs, Barclays Bank Uganda

### The barriers

Another major barrier to financial inclusion is the transaction cost. For banks, the cost of dealing with poor people is high because they have to maintain a high number of accounts with a low volume of financial transactions. This generally makes having an outlet in poor areas unviable. Instead banks have tended to focus on servicing middle- to high- income earners, and international banks in particular are viewed as ‘the rich man’s’ bank.

For poor people, banking is relatively expensive as they find bank charges high in proportion to their volume of transactions. Furthermore, due to the distance of the community from the bank, the expense of travelling adds to the overall transaction cost. Another expense is in the form of a day’s labour that they may also need to forgo.

Globally, 20 per cent of unbanked people have identified distance as a key barrier to financial inclusion, and this rises to 31 per cent in sub-Saharan Africa<sup>37</sup>. Overall, the reach of financial infrastructure has been very limited in countries where Banking on Change operates. In six out of 11 countries<sup>38</sup> there are five or fewer bank branches per 100,000 people<sup>39</sup>. In Kenya, the average distance of people from their nearest bank branch is 19 kilometres and the average cost of travel was \$2.50<sup>40</sup> – the equivalent of several weeks’ worth of savings for many VSLA members.

### What Banking on Change did

***‘Linkage, the development of demand-driven banking products and services, demonstrates Barclays willingness to explore the potential to increase its market penetration and revenue in this sector (base of the pyramid) of the market’***,  
Paulette Cohen, Associate Director, Barclays.

Being based in, and run by the community itself, the VSLA model inherently lowers transaction costs in this very first aspect of access to finance. In addition, the cost of acquiring new clients is lowered as organisations such as CARE and Plan have already formed a large number of VSLAs which, once they have been properly trained, offer a ready potential customer base to the bank. Furthermore, the VSLA model aggregates individuals into groups thereby lowering transaction costs for banks. It is far more economical than having 25 to 30 individual accounts. Indeed research from India has shown that transaction costs for group accounts cost one-tenth of what it costs to open an individual account. Linkage with the bank remains demand driven and the strength is that members are not obliged to take a loan, so members do not become over-indebted and the bank works with customers who are able to afford the services.

<sup>37</sup> Klapper and Demirguc-Kunt, ‘Measuring Financial Inclusion’, the World Bank Development Research Group, 2012.

<sup>38</sup> Tanzania, Mozambique, Uganda, Ghana, Zambia, Kenya.

<sup>39</sup> CGAP, Financial Access 2010.

<sup>40</sup> Market Research and Product Development for Linking VSLA Groups to Financial Institutions’, M2i Consulting, 2011.

For members of a VSLA, the group methodology helps lower the transaction costs associated with holding a bank account, as members can share the time – and the cost – involved in going to the bank to carry out transactions. Banking on Change has shown that groups are happy to bear that cost if it allows security and access to further capital. Barclays is also exploring how to minimise the transaction costs by starting to adopt mobile banking. The Banking on Change partnership also hints at wider potential benefits for Barclays in the longer term. For example, there are already known to be a total of two million savers in VSLAs in the countries where Banking on Change has begun to link informal savings groups with bank branches. If Barclays reached these two million, and was able to secure just ten per cent of the total savings into bank accounts (most savings groups have a surplus they wish to deposit), that would represent \$2 million.

### **The remaining challenges**

While the VSLA methodology has addressed some of the initial elements of distance, cost and viability barriers, they remain a challenge. As part of the Banking on Change partnership, the majority of the VSLAs linked to formal financial services were those located close to a Barclays branch. In the long run therefore there remains the challenge of finding more solutions to make banking in poor communities a practical and viable proposition. Overall it is still too early to assess the commercial viability of Banking on Change pilots, which will be looked at in more depth in phase two of the Banking on Change partnership.

Could it be that there is a need to aggregate people further, perhaps through the clustering of VSLAs (building on experience from Self-Help Groups in India)?

In Tanzania, Barclays has linked 26 Input Marketing Associations (IMAs)<sup>41</sup>, federations of VSLAs, to some of their branches instead of the VSLAs themselves. Such models need to be explored further to come up with new sustainable approaches for financial inclusion.

The experience to date within Banking on Change centres on direct linkage using the physical infrastructure of bank branches. Mobile banking offers the potential not only to address the distance barrier, but also to reduce the overall cost of banking and must be considered. Barclays is already exploring possible technology solutions in Kenya and Uganda that cater to poor people. It sees mobile banking as a key opportunity to be able to reach the poorest people in the future, and is consequently working collaboratively with the Grameen Foundation AppLab in Uganda to develop new, innovative products that provide mobile financial services to poor households in a sustainable manner. In Kenya, the first VSLA group<sup>42</sup> has received the required information on the use of money transfer for deposits using a mobile phone and successfully managed to transfer money to their group account in November 2012. This is a very first promising step for financial inclusion of poor people in the next phase of the partnership.

The Consultative Group to Assist the Poor (CGAP) warns, however, that the average use of mobile money transfers for all developing countries is only five per cent, suggesting that this possible solution to overcoming the distance barrier is still a long way from being fully realised. Furthermore, weak and unclear regulation is another reason for the low usage of mobile money transfers, and national governments therefore have a role to play in providing an enabling regulatory framework around mobile banking.

---

<sup>41</sup> An IMA is usually composed of between six and eight groups.

<sup>42</sup> Yaw Pachi VSLA women's group in Banking on Change Kenya.



# National and international barriers and opportunities

National and international regulatory policies are often cited as further barriers to broader formal financial inclusion for the world's poorest people. These range from micro to macro issues. For example at the national level, banks often require individuals to register themselves in order to meet regulations around the prevention of money laundering and to combat the financing of terrorism. Yet more often than not poor people, particularly women, lack birth certificates and formal identity documentation. Often banks will not have policies in place that enable them to bank groups – something which the Banking on Change partnership has overcome.

Another factor frequently cited is that the regulatory environment governing the provision of mobile technologies needs to be harmonised in order for banks to more easily establish mobile banking platforms that can reach larger numbers of unbanked people living in remote rural locations. Equally important, and already mentioned in this paper, is the issue of consumer protection. If banks and service providers fail to act responsibly, e.g. by offering products and services that are too costly, then the large potential customer base at the bottom of the pyramid will simply lose the ability and the trust needed to engage with the formal financial sector.

A number of emerging initiatives are seeking to tackle some of these issues. In 2008 the Alliance for Financial Inclusion was established – a body that facilitates peer-to-peer learning amongst central banks and regulatory agencies in developing and emerging economies. It has acted as a catalyst to encourage a number of central banks to make concrete commitments to financial inclusion. At the 2012 annual meeting in Cape Town, building on the Maya

Declaration<sup>43</sup>, 35 central banks made and reported on progress towards achieving financial inclusion. For example, Ghana is seeking 70 per cent inclusion by 2017 and is changing its payments, financial literacy and mobile financial services to get there. The meeting recognised that multiple actions will be required – from expanding agent banking networks and regulating and ensuring better inter-operability between mobile providers, to putting measures in place to ensure that financial service providers act responsibly. In addition, the G20's focus on financial inclusion has started to look at how to integrate financial inclusion into existing international standard-setting bodies such as the Basel Committee on Banking Supervision and the Financial Action Task Force<sup>44</sup>.

This increased recognition of the need to adapt and develop national and international policies to secure wider financial inclusion are welcome. The test of their success will be whether or not they increase access for the poorest, or whether they will veer towards providing increased access for those who are already able to bank. The Banking on Change partnership is committed to sharing its experiences with the Alliance for Financial Inclusion and central banks, to inform their thinking.

The Banking on Change partnership is also advocating that the new UN development framework that replaces the MDGs in 2015 incorporates financial inclusion – either as a goal in itself or as a measurement of development progress and inclusive growth. The partnership believes that this will help ensure that discussions taking place amongst central banks and regulators are informed by the need for financial inclusion to reach the poorest.

<sup>43</sup> The Maya Declaration, established in 2010 by the Alliance for Financial Inclusion, commits countries to create and implement regulatory frameworks that balance inclusion, stability and integrity. More than 80 countries – representing over 75 per cent of the world's unbanked population – have supported the Declaration. Each country makes measurable commitments in four broad areas that have been proven to increase financial inclusion.

<sup>44</sup> <http://www.bis.org/speeches/sp121109.htm>.

# Recommendations: a global push towards financial inclusion

---

Banking on Change has shown that some of the apparently insurmountable barriers to financial inclusion can be addressed and that it is possible to bridge the gap between global banking and very poor people. It requires up-front investment from both sides. The intermediary role that NGOs like CARE and Plan can play will be critical. However, it is still early days. There is a need to build on this experience to take it to scale in a commercially viable way.

To further break down the barriers, the Banking on Change partnership believes that the time for a truly global push towards achieving greater financial inclusion is now. This report concludes with five key recommendations that it believes will help accelerate progress:

## 1. Ensure financial inclusion is part of the new UN development framework

Financial inclusion is absent from the current MDGs. In its final report, the UN High-level Panel<sup>45</sup>, which includes the Prime Ministers of the UK, Liberia and Indonesia, should recommend that the post-2015 development framework includes indicators which address the immediate need to increase access to financial services. Member states should be encouraged to work towards ensuring that financial inclusion is part of the new UN development framework as it is negotiated. Specifically:

- Member states should consider ambitious targets for financial inclusion that could be used as an indicator of poverty reduction and inclusive economic growth<sup>46</sup>
- The UN framework could also call for a new global partnership for financial inclusion that commits governments, donors and the private sector to take financial inclusion to scale, with a focus on the very poorest. Such a poverty focus would complement other emerging international efforts including the Maya Declaration on financial inclusion.

## 2. Recognise savings groups as a springboard to financial inclusion

Governments and financial service providers should recognise that savings groups offer a suitable springboard from which poor people can begin their journey towards formal financial inclusion. Saving in this way can lead to a graduation towards individual savings, a goal for financial inclusion. Specifically:

- Governments, donors and financial service providers should support the scale-up of savings groups, for example by working with mobile companies to develop enabling technologies such as group pin codes
- Governments should recognise, rather than regulate, community savings groups and incorporate them into long-term national financial inclusion strategies
- Governments should work with financial service providers to ensure that savings groups can access formal financial institutions, as has happened in India where banks are mandated to open accounts for community savings groups.

---

<sup>45</sup> The recently appointed UN High-level Panel will recommend what might replace the MDGs in 2015 when they officially expire.

<sup>46</sup> These should include equity tracker measures that capture how far women and young people are financially included.

### 3. Build bridges between informal and formal financial sectors

Banks and microfinance specialists should use Banking on Change as an example of how to design a viable 'financial linkage' model that can be replicated by other banks and informal savings communities. This should be supported and promoted by donors and international financial institutions. Specifically:

- Donors should seek to invest in innovative financial linkage models to help lower the risk for business
- Banks need to invest in products and services that can meaningfully reach unbanked people, including women and young people in the poorest communities
- Banks should adopt a set of agreed 'linkage principles' that protect customers and 'do no harm'
- Mobile companies, banks and governments should work together to increase the use of mobile technology to increase outreach of banking transaction points – through mobile operator kiosks, rural ATMs and banking agents using point-of-sale devices.

### 4. Invest in, and expand access to, financial literacy

Governments and financial service providers must recognise that poor financial literacy represents a significant barrier to accessing and properly using formal financial services. Increased financial education is also in the interests of banks and other providers, as people who are financially educated are more likely to use formal financial services. Specifically:

- Governments should seek to extend financial education, for example including financial education in the national school curriculum, as is currently being explored by the Government of Peru. Particular priority should be given to targeting women, girls and young people. Governments should also look at how they can incorporate financial literacy in social protection programmes including cash payments and pensions
- Bank agents, mobile providers, other private sector actors and NGOs should provide training on business skills and entrepreneurship to village savings groups in order to maximise the benefits of increased financial literacy
- Governments and financial service providers need to learn from and adopt some of the strengths of financial literacy models used in the broader microfinance community and include these in their national inclusion strategies.

### 5. Develop strong checks and balances to protect poor and vulnerable people

Without checks and balances people are more likely to fall victim to unscrupulous moneylenders, or financial service providers who might be offering inappropriate products, with no transparency and high interest rates. As more people gain access to formal financial services for the first time, financial institutions and regulators should:

- Design and enforce consumer protection policies to protect poor people's money. This group is particularly vulnerable and policies must recognise this
- National policy frameworks should insist on maximum transparency for consumers so that they can fully understand any charges or fees attached to accounts
- If group accounts with formal providers continue to increase in number, consumer protection policies will need to reflect this trend and ensure these accounts remain appropriate and fair for customers.

# Acknowledgements

---

This paper was written by Alice Allan, Maude Massu and Christine Svarer from CARE International UK on behalf of the Banking on Change Partnership.

CARE, Barclays and Plan would like to thank all the teams in the Banking on Change countries in Egypt, Ghana, India, Kenya, Tanzania, Uganda and Zambia who have contributed to this report. In particular we would like to thank the following individuals: Chen Wong and Paulette Cohen, Barclays; Amalia Johnsson, Plan UK; Devaprakash R and his team, CARE India; Sabbar Tousif, Plan India; Gifty Blekpe, CARE Ghana; Rania Maghawri, Plan Egypt; Francis Mburu and Nelly Otieno and their team, CARE Kenya; Henry Mutabazi, Grace Majara and John Perry, CARE Uganda and M2i Consulting.

We would also like to thank participants of a London roundtable held to discuss the initial draft of this report: Sukhwinder Arora, Oxford Policy Management; Natalie Atmore, Commercial and Economic Diplomacy Department, FCO; Hajar Barbach, Clifford Chance; Lord Boateng, Co-Chair, All Party Parliamentary Group on Microfinance; Marjolaine Chaintreau, Citi Microfinance; Emily Darko, ODI; Andrew Felton, World Bank representative UK; Peter Harlock, Vision Fund International; Lucy Hayter, Cherie Blair Foundation; Claire Innes, DFID; Elena Korf, The Partnering Initiative, IBLF; Sarah Livingstone, Maxwell Stamp PLC; Peter Ryan, Microloan Foundation; Tom Sanderson, Five Talents; Gareth Simpson, Opportunity International; Alastair Stewart, ITN.

And we would like to thank the participants of a roundtable held to discuss the draft report in Uganda, hosted by CARE International Uganda on behalf of Banking on Change: Mackay Aomu, Bank of Uganda; Mary Bagumira, CARE; David T. Baguma, Association of Microfinance Institutions in Uganda (AMIFU); Remis Bakema, ALREP/OPM (Northern Uganda Agricultural Recovery Programme, reporting to the Office of the Prime Minister); James Bot, Country Director, CARE Uganda; Lilliane Byarugaba, Barclays Bank, Uganda; Sowed Damulira, UNFPA; Michael S. Kaddu, Head of Corporate Affairs, Barclays Bank Uganda; John Kalule, Ministry of Finance (MFPED); Ronald Kasozi, ALREP – OPM (Northern Uganda Agricultural Recovery Programme, reporting to the Office of the Prime Minister); Godfrey Kibuuka, Bank of Africa; Lisa Kienzle, APPIab; Grace Majara Kibombo, CARE; Henry Mutabazi, CARE; Chris Neidhold, GIZ; Emmanuel Niyibigira, ALREP/OPM (Northern Uganda Agricultural Recovery Programme, reporting to the Office of the Prime Minister); Nabiwande Nuluyati, Ministry of Gender (MGLSD); Rabbecca Nyonyozi, CARE; Andrew Obara, FRIENDS CONSULT; Gilbert Okello Onono, Ministry of Finance (MFPED); John Perry, CARE; Claver B. Serumaga, Bank of Africa.

### **About CARE International**

CARE fights poverty and injustice in 87 countries around the world to help the world's poorest people find routes out of poverty. CARE also delivers emergency aid to survivors of war and natural disasters, and helps people rebuild their lives in the aftermath. CARE's mission is to create lasting change in poor communities and put money where it is needed most.

### **CARE and women**

CARE tackles the underlying causes of poverty so that people can become self-sufficient. Recognising that women and girls suffer disproportionately from poverty, CARE places special emphasis on working with women to create permanent social change. Women are at the heart of CARE's community-based efforts to improve basic education, increase access to quality healthcare and expand economic opportunity for all.

For more information about CARE, visit: [www.careinternational.org.uk](http://www.careinternational.org.uk)

### **About Plan**

Plan is a global children's charity. We work with children in the world's poorest countries to help them build a better future. A future you would want for all children, your family and friends. For 75 years we've been taking action and standing up for every child's right to fulfill their potential by:

- giving children a healthy start in life, including access to safe drinking water
- securing the education of girls and boys
- working with communities to prepare for and survive disasters
- inspiring children to take a lead in decisions that affect their lives
- enabling families to earn a living and plan for their children's future.

We do what's needed, where it's needed most. We do what you would do. With your support children, families and entire communities have the power to move themselves from a life of poverty to a future with opportunity.

For more information about Plan, visit: [www.plan-uk.org](http://www.plan-uk.org)

### **About Barclays**

Barclays is a major global financial services provider engaged in personal banking, credit cards, corporate and investment banking and wealth and investment management with an extensive international presence in Europe, the Americas, Africa and Asia. With over 300 years of history and expertise in banking, Barclays operates in over 50 countries and employs 140,000 people. Barclays moves, lends, invests and protects money for customers and clients worldwide.

For further information about Barclays, visit: [www.barclays.com](http://www.barclays.com).



Photo: CARE/Christine Svarer

VSLA Group meeting, Ghana





**Plan UK**  
Finsgate  
5-7 Cranwood Street  
London  
EC1V 9LH

[www.plan-uk.org](http://www.plan-uk.org)

Tel: +44 (0)20 7608 1311  
Fax: +44 (0)20 7253 9989

In partnership with



**Barclays**  
1 Churchill Place  
London  
E14 5HP

[www.barclays.com](http://www.barclays.com)

Tel: +44 (0)20 7116 1782  
Fax: +44 (0)20 7116 7542



**CARE International UK**  
9th Floor  
89 Albert Embankment  
London  
SE1 7TP

[www.careinternational.org.uk](http://www.careinternational.org.uk)

Tel: +44 (0)20 7091 6000  
Fax: +44 (0)20 7582 0728