
# Banking in a new world order

There's an American investment fund called the Free Enterprise Action Fund, which says it is "dedicated to providing both financial and pro-free enterprise ideological returns to investors". It has developed a niche strategy. It buys minority shareholdings in companies that implement sustainability and takes them to court.

The fund's case? It is against corporate social responsibility, declaring on its website that "the social responsibility of a business is to increase its profits".

Some bankers and financiers might consider that reasoning to be indisputable. Point one – they might argue, if you are operating in the developed world, then the level of environmental regulation is so high that there is no need for a bank to devote costs to managing these issues.

Point two – they'll continue in emerging markets, environmental and social issues are not the priority. It's growth that tops the agenda, not saving turtles or cross-checking the pay of sweatshop workers.

But, in my opinion, that reasoning is not watertight, and three developments are undermining it. The first is that the speed and omnipresence of communication mean that word gets out, and fast.

The second is that, because of the communications revolution, the nature of regulation has changed. Businesses used to be accountable to a few stakeholders, such as shareholders and customers. Now there's a host of them, from local communities to insurers, export market regulators, the media, governments and non-governmental organisations.

The third development is that banks are now in the firing line. They have become the focus of increasingly intelligent campaigns by these stakeholders if they play a role in financing what is judged to be the wrong project.

What should be the strategic response for leading commercial banks such as Barclays? If you ask me, it's not to walk away from deals, but to make them work, providing value-added solutions to help customers address the rapidly-evolving sustainability issues that they face. Three major opportunities stand out.

The first is climate change. Barclays is already a leader in emissions trading and is well placed to use carbon to create sustainable business growth

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Here, Leo Johnson, director of Sustainable Finance, presents ideas that he outlined at the recent launch of Barclays Corporate Responsibility Report 2006. Sustainable Finance is a consultancy that works with banks to identify sustainable business opportunities

across a range of product lines, from carbon-based bonds and energy efficient mortgage finance, to green-car finance and insurance.

The second opportunity is the supply chain. Barclays leading commercial customers don't need much technical support on sustainability, but their suppliers may. They may be using outdated, inefficient technologies, resulting in a low quality product, high costs of production and perhaps instability.

What is the pivotal role a bank can play here? To front the capital; to provide small business financing through its customer, the anchor client, opening up the strategically-important small business sector at low cost while enhancing the quality of the asset and promoting the relationship with the anchor client.

The third major opportunity is poverty. Barclays has a pioneering programme on financial inclusion, recognising the complex dynamics of both domestic and international emerging markets with programmes such as its services for susu collectors in Ghana.

These people collect and look after the takings of market traders, but traditionally, they just sat on the cash. By linking up with Barclays, the collectors and their customers are being drawn into the banking economy, learning about bank accounts and the wealth-creating potential of credit.

The question is how to achieve scale. One example of the catalytic impact that the financial sector can play is Blue Orchard Microfinance Securities, a Swiss company specialising in the management of microfinance investment products.

Among other activities, it issues bonds backed by the receivables of a portfolio of smaller microfinance organisations, enabling them each to tap the capital markets and increase their ability to serve micro-entrepreneurs.

This is sustainable banking, doing deals that create a social, environmental and financial contribution. It is a different sort of banking, and one that Barclays, with its combination of vision, expertise and a global platform, may be in a unique position to lead internationally.

**Leo Johnson is a director of Sustainable Finance**

*This article represents the views of its author. They are not necessarily those of the Barclays Group.*