EUROPEAN BANKS FAIL THE WORLD'S POOR

World Development Movement

A poorly regulated, bonus driven banking sector is regarded as the main culprit of the current global economic turmoil. While banks face increasing criticism, the industry continues to lobby the European Commission to ensure Europe's trade deals give them greater access to developing country markets. The consequences could be disastrous as evidence shows that foreign banks are already failing the poor, leaving millions excluded from the essential financial services they require to build sustainable livelihoods.

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FAILING THE POOR

Access to financial services plays a vital role in improving the life chances of poor communities. Credit facilities enable farmers, producers and other small businesses to expand and invest in their future. Current accounts enable households to keep their savings secure and receive remittances from family members abroad. Without these banking services, poor communities and small businesses are denied the opportunities to fulfil their potential.

Foreign banks operating in developing countries prioritise profitable customers and services, which has led to:

- Poorer customers losing out as foreign banks concentrate on higher-value customers.
- Small businesses and local farmers finding it harder to access loans as foreign banks cut loans for production in favour of loans for personal consumption.
- Foreign banks squeezing excessive profits out of developing countries.

The impact on the overall banking sector can be considerable as the presence of foreign banks forces local banks to compete for the same high-value customers. As a result, there is reduced lending from the wider banking sector to small businesses, rural areas and poorer sections of society.

"Around the world, countries that have opened up their banking sectors to large international banks have found that those banks prefer to deal with other multinationals like Coca-Cola, IBM and Microsoft. While in the competition between large international banks and local banks, the local banks appeared to be the losers, the real losers were the local small businesses that depended on them."

Joseph Stiglitz, former Chief Economist at the World Bank

The European banking lobby has been aggressively pushing the European Commission and member states' governments to deliver more access to developing countries through its trade deals. These deals will lock many countries into the same model of a highly deregulated banking sector that has proven disastrous for the world economy. Developing countries will lose control over their financial sector at a time when many European governments are intervening in their own financial markets.

MEXICO

Mexico signed a trade deal with Europe in 1999 which allowed foreign multinational banks full access to its banking sector. Today, foreign banks control 80 per cent of the sector and lending for both production and small businesses has declined, even though 99 per cent of all Mexican firms are classified as micro, small or medium enterprises. Foreign banks have concentrated their services in urban areas – local farmers and producers in rural states like Oaxaca find it difficult to access affordable banking services. As a result, local farmers and small businesses struggle to expand and build sustainable livelihoods.

The dominance of foreign banks has not made services more affordable. Credit card interest rates are the highest in the western world, while strict criteria and minimum balance requirements exclude many from the formal banking sector. At the same time, foreign banks in Mexico are reaping large profits by concentrating banking services on richer, urban customers and large businesses.

Worker displaying goods produced at nopal factory

Fabiola Velasco Gutiel manages a nopal (edible cactus) factory in Oaxaca, Mexico *"...the factory has a bank account in Bancomer [a Spanish-owned bank]. We have the account because it is necessary for accounting and administration. We were trying to get a loan for production ie. working capital. We didn't have enough saved in our account; they told us we couldn't get a loan. They didn't even tell us the requirements, they just told us we wouldn't qualify."*

CICC

INDIA

Since the 1990s, the government of India has pursued a policy of liberalisation within the banking sector making it easier for foreign banks to operate. Now, foreign banks make proportionally larger profits than other banks operating in India. In urban areas, ordinary households and small businesses struggle to meet the criteria to open an account, let alone obtain a loan from foreign banks.

Evidence shows that the increasing presence of foreign banks has distorted the wider sector and caused local banks to also target higher-value customers at the expense of poorer customers. Market surveys have shown that both foreign and Indian private banks have been reluctant to lend to small and medium sized businesses, preferring to serve big businesses. Focussing on higher value customers has led to many small firms losing access to credit.

Europe is currently negotiating a trade deal with India and European banks are lobbying for the removal of regulations governing foreign banks. If the European banking lobby gets its way it will be harder – if not impossible – for the Indian authorities to impose specific regulations on foreign banks to serve poorer communities and small businesses.

Rahul works in a computer repair shop in Dehli. He was turned down for a loan by HSBC but was able to obtain a loan with the Indian bank, Syndicate. Today he denounces the government policy of encouraging foreign banking in India. He asserts: *"The entire structure and procedure of lending of foreign banks goes against the interests of a larger section of Indian society. They mock at the people who have small savings".*

India FDI Watch

SUMMARY

The global financial crisis has illustrated the dangers of a hands-off approach to banking regulation. Yet this deregulated model is exactly what the European banking lobby is aggressively pushing for through trade deals.

Overall, the presence of foreign banks in developing countries has reduced access to banking services for many small businesses, poorer customers and those in rural communities. Their presence has distorted the banking market causing local banks to compete for the same high value customers, leaving millions excluded from essential banking services. Developing countries need affordable banking services that enable people to build sustainable livelihoods. Yet many countries now face the possibility of a system that fails to deliver genuine development to the people that need it most.

WHAT YOU CAN DO

Find out the latest on the campaign and sign up for updates at **www.wdm.org.uk/trade**

The World Development Movement is campaigning for Europe to stop its unfair trade deals. We are calling for a full-scale rethink of Europe's trade policy to ensure that it prioritises development, environmental sustainability and human rights. Demands for financial services liberalisation should be taken out of all proposed trade deals.

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