

About the authors



Reinhard H. Schmidt is a senior professor of finance at Goethe University in Frankfurt. He has 30 years of experience as a consultant in development finance for various national and international organizations, served as the chairman of the supervisory board of one of the world's largest microfinance support institutions for five years and has published extensively on microfinance and development finance issues. In all these capacities he has strongly influenced the development of modern microfinance.

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Paul Thomes is professor of economic and social history and history of technology at the School of Business and Economics of RWTH Aachen University. He received a doctoral degree following his dissertation on the history of the Prussian savings banks, and a post-doctoral habilitation degree, following his work on the economy of the early modern town. Since then he has published extensively on many aspects of profit and non-profit banking and finance in a history-based, long-term perspective, combining economic, social and technological aspects in a holistic methodological approach.



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From Microfinance to Inclusive Banking

Why local banking works



A study edited by the Sparkassenstiftung für internationale Kooperation, financed by the German Federal Ministry for Economic Cooperation and Development and supported by the Academic Sponsorship of the Savings Banks Financial Group (Sparkassen Wissenschaftsförderung).

Description

Once praised as a panacea to overcome poverty, microfinance recently has had to face harsh criticism because of painful failures and unfulfilled expectations. Many people, particularly in rural regions, still do not have access to formal financial services, many microfinance institutions are weak, and others exploit their clients, driving them into over-indebtedness rather than helping them out of poverty. What should microfinance achieve? Can it help to build up inclusive financial systems allowing access to basic financial services for everybody?

The authors of this book, a financial economist, a sociologist and a historian, take a history-based and interdisciplinary approach to study the potential of local banking in developing economies. The historic templates for this inquiry are the German savings banks and cooper-



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ative banks in the 19th century, a time in which the German economy and society had many of the features of today's developing countries. These local and decentralized banks are true precursors of modern microfinance. Their strong track record of development and growth spanning over 200 years clearly shows that local banking can work and can greatly contribute to modernization and social cohesion in a country that is undergoing a fundamental transformation. Moreover, their historical development shows what has made these local financial institutions successful as drivers of transformation: From relatively early on, they became financially sound "universal banks" for people of limited financial means – not merely as specialized financial providers for poor people, but rather as truly inclusive small local banks.

Obviously, the historical findings as to why, and with what strategies and policies, the early German local banks were so successful in the 19th century cannot be translated directly into specific models of how to design, set up and manage development-oriented local financial institutions in today's developing countries. Nevertheless, valuable lessons can be derived indirectly from history. That this is possible is shown by a series of eight case studies illustrating the origins, design of, and policies pursued by some of the most successful locally-rooted development finance institutions of today. Somewhat surprisingly, their development paths closely resemble those of the German savings banks and cooperative banks in the 19th century. Starting as specialized institutions that granted very small loans exclusively to poor people, they soon turned into formal banks that aspire to serve all segments of the population with an appropriate supply of savings options, loans, money transfers and other financial services.

The chapter setting forth the historical account, and another providing a series of 10- to 15-page case studies, both of which go far beyond what has so far been available in the development finance literature, are embedded in general, conceptual, empirical and, last but not least, political considerations concerning the potential which local banking had in the past, has today, and hopefully will have in the future.

The book sends a strong message: Local banking can work and can be truly inclusive – if it is well conceived and well implemented and encounters a suitable political and institutional environment.

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History of German Sparkassen – A brief timeline

- 1778
First-ever Sparkasse in Germany opens its doors in the city of Hamburg
- 1838
First Prussian – and first-ever – savings banks law is adopted
- 1924
The German Savings Banks Association – Deutscher Sparkassen- und Giroverband (DSGV) – is founded
- 1931
Sparkassen gain the legal status of independent entities
- 1934
Sparkassen are acknowledged as financial institutions; they are now subject to prudential regulation and oversight
- 1992
The Sparkassenstiftung für internationale Kooperation – Savings Banks Foundation for International Cooperation (SBFIC) – is set up

