

**EUROPEAN
MICROFINANCE WEEK 2014
DEVELOPING BETTER MARKETS**



**Session:
Local banking and inclusive finance**

**Local Banking in Germany:
From Microfinance to Inclusive Universal Banking**

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The challenge of economic growth & poverty reduction: Banking and microfinance in Europe

500+ years of banking and financial intermediation

200+ years of microfinance

160 years of coop. finance & rural development

Objective of banking: Economic growth

Objective of microfinance: Poverty alleviation

15th century:

Beginning of economic development and banking:

- Small and big business growth, international trade
- Banking: from deposit-taking to **financial intermediation** and business finance (demand-led)

Poverty and the rise of microfinance (*MF*)

16th-18th century:

Tremendous increases in poverty

18th-19th century: Origin of microfinance (MF)

***Objective:* Poverty alleviation**

Two (*competing*) MF movements:

- Municipality-based savings funds → banks
- Member-based savings & credit cooperatives → banks
- Both movements: Savings-led, local, informal beginnings
- Priorities of the poor: Depositing savings

1st MF movement (*origin in England & Germany*): Savings funds/banks for the poor

- ~ **1800, Germany:** Initiated and governed by municipalities, under municipal trusteeship
- Initial sources of funds: savings of the poor, supplemented by charity and government funds
- Saving for emergencies, old age
- Savings → loanable funds → credit
- Evolution of credit: household durables, housing, MSEs → SMEs, consumption, municipal investments

Germany: 1778 first registered thrift society

1801 first community savings “bank“ (*Sparkasse*)

- ~ **1800, England:** from informal „friendly societies“ to a state-owned national savings bank (collecting savings for the state budget, model for the colonies)

Second MF movement (*origin in Germany*) SHGs/credit associations/cooperatives

1846/47 hunger year, many lost their farms or life

1847 1st rural charity (*by Raiffeisen*), unsustainable

1850 1st urban SHG/credit association (*Schulze-Delitzsch*)

1864 1st rural SHG/credit association (*Raiffeisen*)

Private initiative, member-owned, member-governed

Coop. strategy of poverty reduction and ec. growth:

Promoting member enterprises with savings & credit, input supply and marketing services (to individuals and SMEs)

Evolution: from multipurpose to single purpose coops

1877 Federations for services, bank linkages, advocacy

~1900 spreading around the world

The role of the state: providing a regulatory framework

1838 (Prussian) Savings banks decree

Trusteeship by municipalities, not ownership

1867/1889 (Prussian/German) Cooperative Acts

Ownership by members

Start-up: joint liability (= collateral substitute for bank refinance)

1889: Limited liability (access to central fund, refinanced by banks)

Auditing: by chartered accountants or coop. auditing federations

State kept at bay, state intrusion (*by Bismarck*) resisted

1934 Banking Act, covering 18,000 local fin. institutions:

15,000 credit coops/banks + 2822 savings banks = **local area banks**

Supervision by the central bank, auxiliary supervision delegated to auditing federations of the networks

Savings and cooperative banks (ex-MFIs): two of three pillars of the German banking system (2010)

Mission:

Universal inclusive banking for all:

poor and non-poor, individual and SME finance

Outreach:

429 savings banks, 15,600 branches, 50 mn clients

1138 coop banks, 13,500 branches, 30 mn clients

Total assets (*incl. central institutions*): EUR 3.58 trillion

In % of total banking sector:

Cooperative banks: 10.3%

Savings banks: 27.5%

Total: 37.8%

Basic elements and steps of savings and cooperative banks

- Self-help of communities and members, respectively
- Based on voluntary withdrawable savings
- Initially focusing on the poor, later including non-poor & SMEs
- Local autonomy in management and governance
- Local outreach, financing the local economy
- Federations, network-wide institutional safety net & deposit guarantee scheme (*Haftungsverbund*)
- Access to refinancing by commercial banks
- Evolution of a legal and regulatory framework
- Auxiliary supervision delegated to auditing federations
- Transformation into full-service banks

Lessons of history

Commercial banks: Big business, big growth, big risks

Historical objective of MF: poverty alleviation

Results of microfinance/local banking in Germany

- Inclusive access to finance for all people and SMEs
- Crisis-resilience of savings and coop banks, low risks

Impact: Sustainable poverty reduction as a result of economic growth & access to finance

Complex interaction between:

economic growth, poverty reduction, financial sector dev. & microbanking



Thank you!