Why we should embrace institutional diversity in banking

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Summary: The contribution of institutionally diversified financial sectors to more sustainable growth and financial stability—in particular the role of effective local banking structures—is not always fully appreciated, whether in the context of development cooperation or in policy discussions in the advanced economies. At the same time, a growing number of studies—ranging from analyses of the drivers of financial inclusion in developing countries to assessments of various banking groups' performance during and after the global financial crisis (GFS)—find that financial institutions whose business models focus on local economies, retail and relationship banking do, indeed, have a positive impact on economic development, growth and financial stability. Those findings are also supported by a closer examination of the factors, which contributed to the successful evolution of the German savings banks and cooperative banks over a period of more than 200 years. These factors include: the concentration of their banking activities on a limited geographical region while working as a network of cooperating autonomous institutions; the prioritization of savings mobilization; a mandate to serve the economic and social wellbeing of the local region, while remaining profitable and financially viable over the long run, rather than narrowly focusing on profit maximization. Similar success factors can also be observed in the context of financial institution building and the deliberate promotion of locally oriented and people-focused microfinance and banking institutions in several developing economies.

Zusammenfassung: Der Beitrag von Institutionen-Vielfalt im Finanzsektor zu nachhaltigem Wachstum und Finanzstabilität – insbesondere die Rolle effektiver lokaler Bankstrukturen – wird nicht selten unterschätzt, sei es im Rahmen der Entwicklungszusammenarbeit oder in der strukturpolitischen Diskussion in den hochentwi-

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ckelten Volkswirtschaften. Dabei kommen in jüngster Zeit mehr und mehr Untersuchungen zu dem Ergebnis, dass Finanzinstitute mit einem Geschäftsmodell, welches die Pflege langfristig angelegter Geschäftsbeziehungen zu breiten Bevölkerungsschichten und zu mittelständischen Unternehmen vor Ort in den Mittelpunkt stellt, in der Tat einen positiven Einfluss auf Wirtschaftsentwicklung und Stabilität ausüben. Diese Untersuchungen reichen von Studien über Faktoren, die inklusive Finanzstrukturen in Entwicklungsländern vorantreiben helfen, bis hin zu vergleichenden Analysen der Geschäftsergebnisse unterschiedlicher Bankengruppen in Folge der globalen Finanzkrise. Diese Forschungsergebnisse werden überdies auch bestätigt, wenn man die spezifischen Erfolgsfaktoren hinter der mehr als 200-jährigen Geschichte des deutschen Sparkassen- und Genossenschaftsbankwesens einmal genauer unter die Lupe nimmt. Zu solchen Faktoren gehören unter anderem: Die Konzentration ihrer Aktivitäten auf eine geographisch begrenzte Region bei gleichzeitiger Zusammenarbeit in einem „Verbund" (das heißt in einem Netzwerk autonomer Institute); die Förderung des Sparens und eine Fokussierung auf das Einlagengeschäft, und last but not least, ein Mandat, sich für das wirtschaftliche und soziale Wohl der Region einzusetzen, und zwar auf der Basis von nachhaltiger Ertragskraft und finanzieller Solidität anstatt enger Ausrichtung auf kurzfristige Profitmaximierung. Ähnliche Erfolgsfaktoren finden sich auch in einer Reihe von Entwicklungsländern im Zusammenhang mit dem Aufbau eines heimischen Finanzinstitutionengefüges und damit einhergehenden dezidierten Anstrengungen zur Förderung von Mikrofinanzinstituten und lokal verankerten Banken, deren Angebot an Finanzdienstleistungen nicht zuletzt auf die Bedürfnisse der ärmeren Bevölkerungsschichten ausgerichtet ist.

1 Introduction

It would appear obvious that assessments of the performance of financial institutions in advanced economies over different periods of time—including more recent analyses following the GFC—should provide important inputs for policy makers in *all* countries around the world, and *not only* for the more exclusive membership of the G20, the FSB and the "Basel community" of regulators and supervisors. However, what seems less well understood is that studies focused on issues of financial inclusion and improving the effectiveness of financial sectors in developing economies, which are mainly intended to assist development partners, *also* yield very relevant lessons for advanced economies' financial sector policy. This article, therefore, gathers findings from a cross-section of pertinent studies (section 2) and brings them together with a number of stylized facts that explain the long-lasting success of the German savings and cooperative banks (section 3). The objective of this exercise is to demonstrate that there is a well-founded case to be made in defense of diversity in banking models, regardless of country group or stages of economic development, as summarized in the concluding section IV.

2 The role of access to financial services and effective banking institutions in the process of saving & borrowing and fostering growth & stability

2.1 Macroeconomic effects of financial inclusion

Recent studies based on ex-post project assessments in countries with multi-year microfinance support programs show that the promotion of financial inclusion benefits poverty reduction and development (Demirgüç-Kunt, Klapper and Singer 2017). This complements findings in earlier literature on the nexus of finance and growth, which describes the positive effects of financial deepening on economic development, including its welfare-enhancing influence on previously marginalized segments of the population (for example Levine 2005). Even those who later have argued that microfinance has promised more than it could deliver agree that it has made a significant contribution to a more inclusive financial system by building robust, durable financial institutions to bring useful services to millions of people in need (Roodman 2012, 2014).[1] Indeed, and more specifically, the micro-level evidence on the benefits of access to basic payments and savings, especially among poor households, is quite supportive. At the same time, the micro-level evidence of the experience with increased access to credit shows somewhat more mixed results (World Bank 2014). However, until a few years ago a more rigorous analysis of the macroeconomic effects of financial inclusion was lacking because consistent macro-level data over sufficiently long time periods was either unavailable or not systematically put together. This changed once the IMF started to devote more resources toward assembling better and more granular financial sector data—including cross-country data on access to and use of financial services—and began to incorporate these into the analysis of macroeconomic issues of income inequality and inclusive growth.

This analysis confirms that financial inclusion can indeed have positive macroeconomic effects, both in terms of growth and stability (Sahay et al. 2015a). The findings can be summarized as follows:

- *Financial sectors that are not only deep but also more diverse in providing broader access to finance appear to be more conducive to economic growth* although, at high levels of financial development, the marginal benefits to growth of increasing financial inclusion begin to decline.

- *Sectors that are more dependent on external finance grow more rapidly in countries with greater financial depth, and even more so with greater financial inclusion*; also, financial inclusion is especially beneficial in sectors where pledging collateral is more problematic.

- *Financial inclusion can also enhance stability, through direct and indirect channels*. Directly, if more people use bank deposits, banks could have a more solid funding base, especially in periods of stress.[2] Indirectly, financial inclusion can provide clients of financial firms with better risk management tools, boosting their resilience. However, the impact on banking stability of broadening access to credit depends on the quality of supervision. In countries with weaker bank supervision, the negative effect of broadening credit access on bank buffers is more pronounced. Conversely, at sufficiently high levels of supervisory quality, credit inclusion is positively associated with higher bank buffers.

- *Closing gender gaps in account usage and promoting diversity in the depositor base would help to improve growth without impairing financial stability*. More inclusive financial sec-

1 Roodman also has commented positively on the 'German school of institution building', which shines through in much of the development of Germany's savings and cooperative banks described in section III. Below (see Roodman's Blog of October 17, 2012. www.cgdev.org/blog/german-school-institution-building-microfinance).

2 This finding is in line with studies cited below that banks, which have always relied on a strong retail deposit base, turned out to be more resilient during the GFC than banks that were very dependent on wholesale funding (for example Ayadi et al. 2015, Kotz and Schmidt 2016).

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tor governance can also be important for financial stability (see also Sahay and Čihák 2018).

2.2 The fundamental role of savings

Thrift lies at the heart of savings and capital accumulation, and when savings are effectively transformed into enterprise financing and put to productive use, this will generate economic growth and development. The promotion of saving is critical not only at the macroeconomic level, but also at the individual level, including among the poor. Savings also help low-income households and the poor to smooth consumption and provide a degree of 'self-insurance' to cope with unforeseen problems, including illness and temporary inability to earn a living. As individual or family income grows, savings can help finance investments in education or with starting a micro or family businesses. For example, according to the World Bank's Global Findex Database 2017, saving for a business was especially common in Sub-Saharan African economies: In Ethiopia, Kenya, Liberia, Nigeria, Uganda and Zambia, 29 percent or more of the adults surveyed reported having done so. This is twice the global average. Hence, at the aggregate level, an increasing accumulation of savings is strongly predictive of future economic growth (Karlan et al. 2104). Yet, despite the progress over the past decade in improving access to finance, many people with bank accounts do not necessarily use a banking institution for their savings. As shown in the Global Findex Database, only 31 percent of account holders in developing countries reported in 2017 that they have saved at a financial institution during the past 12 months. A considerable share of people saves semi-informally, for example through a village savings club or simply by holding cash at home and in the form of jewelry. Informal saving still meets consumption smoothing and self-insurance needs. But money "parked" outside the financial system is not available for the professional intermediation of savings into credit. This is where effective local banking with its ability to reach communities and generate trust comes into the equation.

2.3 Credit and its importance for small business

Individuals as well as firms depend on reliable access to credit no matter how advanced an economy's stage of development, and studies find that bank credit is generally associated with higher growth rates if one controls for other factors (Ayyagari, Demirgüç-Kunt and Maksimovic 2011). But often there is a mismatch between demand for and supply of credit, which is especially problematic when it comes to small firms and start-ups. According to a 2010 expert group report to the G20, formal SMEs contribute up to 45 percent of employment and up to 33 percent of GDP in developing economies and these numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector. Research also shows that the availability of external finance is associated with greater innovation by MSMEs, and business start-ups. However, market information asymmetries, high transaction costs, lack of movable collateral frameworks and credit information systems as well as other weaknesses of the financial sector infrastructure and legal environment often constrain access to finance for these firms, in particular in developing economies (World Bank 2014).

According to World Bank surveys, more than one third of small firms in developing countries cite access to finance as a major constraint. Even among large firms, that number is significant (25 percent). And lack of access for SMEs is also still a significant issue in the developed economies (World Bank 2014, Sahay et al. 2015a). These numbers are based on a sample of 137 countries from 2005-2011. More recent country-by-country data from the 2017 Global Findex Database report show that as much as 40–50 percent of small firms, in particular in Sub-Saharan African economies, still report lack of access to be a major constraint.

Credit is not always the most suitable instrument to finance a business, but for many firms it may be the only available external source of finance. Start-ups as well as micro and small firms often have hardly any other options but to rely on banks in order to add external capital to leverage internally generated finance. And it is often only at the local level, where they can overcome their financing challenges. This is because, if anywhere, it is at this level that the age-old ‘know your customer’ banking rule tends to work to the mutual benefit of both the lender and the borrower.

Small firms have more of a chance to establish trust and build sound relationships for the longer term with a local banking partner that is familiar with the local business environment. From the perspective of the lender, relationship banking that is focused on local clients affords the lending institution a superior risk assessment, based on local, soft information (Petersen and Rajan 1994). Such a ‘commonality of interest’ between local banks and local businesses becomes even more obvious for banks with a business model that specializes in MSME financing and/or includes a mission to support the local/regional economy (Behr, Foos and Norden 2013). This type of local business financing by banks has been shown to be effective and sustainable, and certainly more so than government-directed lending.[3]

2.4 Financial sector structure in the context of development and growth

Market finance and bank finance play different and complementary roles in the growth and development process. The highly positive correlation between financial depth and economic growth is uncontroversial, although there is some disagreement in the literature about the direction of causality. Some studies have shown evidence of a positive effect of financial development on growth, while others argue that financial development advances when economic growth leads to greater profits for financial institutions.[4] However, while the pros and cons of bank finance versus market finance have been the subject of much analysis and debate for a long time, there has been a relative dearth of literature on the relative benefits of different types of banking institutions or banking models. Of particular interest here is the question of whether some financial institutions or certain banking business models are better suited than others to improve access to finance for businesses, especially for MSMEs and start-ups.

A useful, albeit partial answer to the question can be found in a chapter of the World Bank’s Global Financial Development Report 2014, which analyses the drivers of financial inclusion. In that chapter, the World Bank staff undertakes a valuable review of the role of different types of financial institutions (World Bank 2014). This review also presents data about regional variations in the relative importance of financial institutions other than commercial banks. For example, in Latin America and East Asia and the Pacific, there is a high ratio of cooperative banks, whereas in Sub-Saharan Africa—at a ratio of MFIs to bank branches of almost 1 : 2—MFIs are much more prevalent than anywhere else. Interestingly, the ratio of cooperatives to commercial bank branches

3 Directed lending often has been associated with market distortions and financial stability concerns. The risk of such problems materializing is even greater in countries suffering from poor governance and weak institutions.

4 For an overview of the arguments see Levine (1997, 2005), who concludes that the preponderance of evidence suggests that both financial intermediaries and markets matter for growth and that reverse causality alone is not driving this relationship.

is highest in the advanced economies of Western Europe; Germany and Austria actually have more cooperative than commercial bank branches. However, while a literature review finds that a higher share of savings and credit cooperatives, credit unions, and MFIs may result in improved access to finance in low-income countries, it does not produce evidence that smaller institutions more generally perform better than larger ones in providing access to finance more generally (Beck, Demirgüç-Kunt and Singer 2013). In fact, the World Bank report cites several examples of larger banks that have profitably managed to provide greater access to finance, such as Banco Azteca in Mexico (see also Ruiz 2013). What appears to matter more than the size or governance structure of banks in improving access to finance in a commercially successful manner is the special lending technique that such banks have developed and/or the business model of relationship banking. Research also confirms that competition in the financial sector is a key factor in enhancing firms' access to finance (Love and Martinez Peira 2012). The World Bank report then concludes that a financially diverse landscape, featuring a variety of financial institutions and improved competition in the financial sector, can be associated with improved access to finance and provide a better basis for growth.

With regard to the European banking system, a series of innovative studies assesses the performance of various groups of banks and their lending behavior through the economic cycle. The 'Banking Business Models Monitor' emphasizes the ownership structures and assesses the financial and economic performance, resilience and robustness, across retail, investment, and wholesale oriented banks (Ayadi et al. 2014). The analysis finds, *inter alia*, that the contribution to the real economy of the locally focused retail bank model has been significantly higher than other business models, and banks that engage more in traditional retail banking activities with a mix of funding sources fared well during the different phases of the GFS compared to other bank models. In a similar vein, studies by Butzbach and von Mettenheim (2012, 2014) find that "alternative banks" (including cooperative, savings, and special purpose banks) often equal or outperform joint-stock banks. These types of banks have business models that are based on sustainable returns with longer time horizons and include social and public policy goals. Kotz and Schmidt (2016) draw similar conclusions from their analysis of the development of German banks' corporate governance since the 1950s.

2.5 Financial sector diversity and financial stability

History is rife with banking crises that caused major economic turmoil, followed by national and supra-national efforts of lawmakers, supervisors and regulators to design stronger tools for crisis resolution and prevention. However, such well-intentioned efforts to reduce systemic risk eventually tend to get watered down in the face of heavy lobbying by vested interests. The new regulations then can turn out to be insufficient to prevent the recurrence of excessive risk taking at the systemically important large banks. Yet they cause disproportionate burdens for local banks, which did not cause the crisis in the first place. In fact, it could be argued that the latter are more resilient, while investment and wholesale banks tend to accelerate the accumulation of risk at system level and to be less resilient to shocks (Ayadi 2015). This argument is also shared by Kotz and Schmidt (2016), who observe: "Experience bears witness to the fact that banking systems including boring

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banks, i.e. those with a broader stakeholder orientation and less of a focus on short-term profits, appear to be more resilient." [5]

Indeed, the stability and growth benefits of an institutionally diversified banking sector can be illustrated rather well with the experience in Germany. Here, the decentralized system of local banks, which has always focused on retail (deposits and lending) and SME business, has been much more resilient during the GFS than the large, internationally active commercial and investment banks. The financial stability of the decentralized banking groups, coupled with their ability to maintain strong "house bank" relationships with SMEs and trades and crafts people, has prevented an economy-wide credit crunch. This also explains at least partially why the crisis-induced recession was shorter lived in Germany, and its economy has managed to come out of it much stronger than that of other comparable countries. Incidentally, a study published by the ILO makes similar points for cooperatives in other countries (Birchall 2013). Figure 1 shows the divergent trend in lending between the large commercial banks on the one hand and the savings and cooperative banking groups on the other between 2000 and 2018: The lending behavior of the former is rather volatile, and total credit outstanding declines during and following the financial crisis and the subsequent economic downturn, whereas the total credit extended by either the savings banks or the credit cooperatives shows a steady increase during the same period.

Unfortunately, safer banking structures and business models that favor stable long-term bank-client relationships were increasingly considered to be outdated or "boring" (Kotz and Schmidt 2016) during the final decades of the 20th century. As a result, the privatization of state and public banks, the restructuring of decentralized banking groups into larger banks, or mergers with large commercial banks became the norm across many member countries of the OECD and beyond, in particular during the investment banking hype of the 1990s.[6] All the while, the ascent of investment banking and financial engineering, combined with the revolution in IT, ushered in an era of "financialization", i.e. an increasing disconnect of global banks and financial markets from the real economy. Shareholder value orientation became a standard for most and pushed profitability benchmarks in banking to unsustainable levels. In fact, it was unrealistic for banks with a business model focused on relationship banking and the financing of SMEs to achieve the strongly elevated targets for returns on assets (ROA) propagated by large investment banks and the capital markets. As a consequence, a number of those, mostly mid-size regional banks sought to boost their results by investing in the high-yielding complex structured products engineered from US mortgages, but eventually ran into huge problems.[7] With hindsight, therefore, the GFS has also served as a stark reminder of what happens when banks depart from traditional business models with familiar risks and take new risks that can easily become excessive.[8]

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5 This pattern has led to increased calls in Europe, for example, to stop pursuing one-size-fits-all regulation and introduce proportionality to better align regulation with business models: i.e. set more stringent rules for those bank business models which tend to accelerate systemic risks than for those which are more resilient to extreme shocks and have stronger links to the real economy.

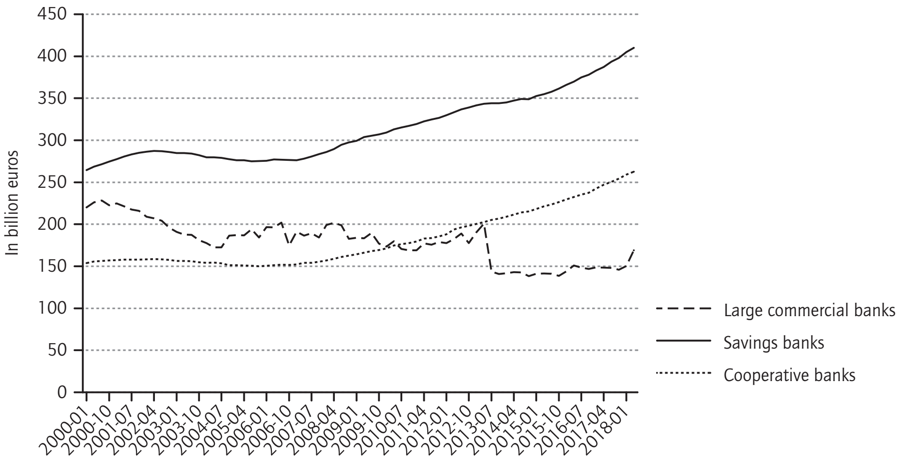
6 As one of the few exceptions in Europe, the German government resisted pressures to privatize its decentralized networks of savings banks.

7 One such bank—the first to fall in Germany in the wake of the GFC—was Industrie Kreditbank (IKB) in Düsseldorf. Landesbanken, too, suffered losses on their investments in "toxic assets", were subject to bailouts by their owners (regional savings banks associations and Länder) and were forced to undergo management changes and major restructuring.

8 The renowned Asian regulator and scholar, Andrew Sheng remarked with hindsight: "I used to think that we should build Wall Street in Asia. I now think that is exactly what we should not do. I am still a firm believer that finance must be at the service of the real economy, not the other way around. I still believe that finance must look after the interests of the public first and foremost before its own interests.

Figure 1

Total credit outstanding to domestic enterprises & self-employed



Source: Banking statistics of the Deutsche Bundesbank and calculations by the DSGV (German Association of Savings Banks).

3 The example of the savings and cooperative banks in Germany's "3-Pillar System of Banks": Longevity of diversity in banking demonstrated

Both the savings banks (Sparkassen) and the cooperative banks (Volks- und Raiffeisenbanken) in Germany have successfully followed a self-sustaining business model over more than two centuries.[9] The savings banks group and the cooperative banking sector form two of the so-called "three pillars" in the German banking system, with the commercial banks (publicly listed or private) constituting the third pillar (Schmidt, Bülbül and Schüwer 2013). Together, both of these two decentralized locally anchored banking groups have by far the largest market share in retail deposits and small business lending in modern day Germany (Tables 1 and 2). Savings banks have emphasized the virtue of saving across all generations until the present day, which may explain at least in part their long-lasting leading market share in savings deposits as well as deposits overall.

The institutional model of the German savings banks is rather unique today, not least due to its particular legal, governance and ownership structure (see, *inter alia*, Clarke 2010, Simpson 2013, Schmidt, Seibel and Thomes 2016). Cooperative financial institutions can be found today in many parts of the world, and the cooperative movement that started in the 19th century in Europe has inspired MFIs in many developing countries. By contrast, while savings banks were also founded in many other European countries in the 18th and 19th centuries, many have disappeared, were

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We change these beliefs at our peril." Quoted from: Annual Ngee Ann Kongsi Distinguished Lecture, Singapore Management University, 28 October 2010 "Global financial reforms and its implications for Asia and its financial systems".

9 See also Schmidt, Seibel and Thomes (2016), Deutsche Bundesbank (ed.) (1976), Pohl, Rudolph and Schulz (2005), Faust (1977).

Table 1

Deposits – market shares 2018 by type and banking group	Total deposits (exclusive term deposits of over two years duration)	Savings bonds	Savings deposits	Term deposits (up to two years)	Sight deposits
Savings banks	35,4	43,4	51,3	17,4	33,8
Cooperative banks	21,9	12,3	31,8	11,3	21,0
Large banks	20,8	8,4	14,1	37,0	20,4
Regional banks	21,9	35,9	2,8	34,3	24,8

Source: Deutsche Bundesbank Banking Statistics and calculations by DSGV.

Table 2

Credit market shares 2018 by type and banking group	Total loans to domestic non-banks	Loans to domestic public authorities	Consumer loans	Residential real estate loans*	Loans to the craft and trade sector	Loans to enterprises and self-employed**
Savings banks	37,8	39,3	21,2	38,1	72,4	40,6
Cooperative banks	20,4	1,5	19,1	26,1	14,3	18,4
Large banks	13,8	7,8	11,3	17,3	2,7	11,9
Regional banks	28,0	51,4	48,4	18,5	10,6	29,1

* Private and commercial housing construction loans. ** Excluding commercial construction loans.
Source: Deutsche Bundesbank Banking Statistics and calculations by DSGV.

restructured into supra-regional banks or merged with other banks and lost much of their initial mission along the way (von Mettenheim and Butzbach 2012). German savings banks, too, have consolidated over time, but did not abandon their local and regional focus. And they have adhered to the key tenets of their structure, governance and business model: savings banks continue to have close ties to local governments, pursue social as well as business objectives and a bottom line of profitability but not profit maximization. They are authorized to operate only in their local region. That creates commonalities of interests between the savings banks and the municipalities or counties as well as with the local communities and economies they serve. To secure economies of scale, they formed associations, which allowed them to coordinate back-office functions and operate as a network of cooperating autonomous institutions. To help manage liquidity in the network and larger scale operations, including wholesale, international and capital market-related business, which would overwhelm an individual municipal savings bank, they also created apex banks, i. e. central institutions, organized along state lines (hence their name “Landesbanken”, i. e. banks of the states).[10]

10 The cooperative banks organized similar networks and central institutions for the same reasons which have by now been consolidated at the national level.

The geographical constraint serves as an incentive to provide high quality financial services. Savings banks cannot move into other or more lucrative regions to expand their earnings potential; they have to try harder to retain customer loyalty. They also tend to maintain good banking relations with their local SMEs, the crafts and the trades people through the economic cycle, because the future commercial viability of the savings bank hinges on the economic success of the local business community. The cultivation of strong local ties also ensures greater familiarity by loan officers and bank management with the local firms and their businesses environment, which makes them better judges of the longer-term prospects of loan applicants. This facilitates risk management and gives the local savings bank an edge over branches of large commercial banks, which are more constrained by conditions imposed from far-away headquarters.

This model of banking is more crisis resilient and beneficial for the stabilization of local/regional economic development. For example, according to surveys conducted among German businesses during the global financial crisis (quoted in Ayadi et al. 2009), businesses that rely on the larger banks suffered during that period because of a reduction in lending by those banks (see also Figure 1 in section 2.5 above). By contrast, the businesses that relied on the savings banks and the credit cooperatives did not witness similar restrictions in availability of credit. Hence, the savings banks have behaved counter cyclically during the economic downturn (Behr, Foos and Norden 2013 and 2015). The principle "local deposits into local loans" provides resilient financing opportunities for economically weaker regions and counteracts potentially larger capital outflow from these areas. This can also be observed with credit cooperatives in other countries (see Birchall 2013).

The traditional partnership between savings banks and their trustees, the municipalities and counties, has also contributed significantly to local and economic development across all regions. This link has helped finance communal investment into utilities, infrastructure and education during the industrialization and modernization of the late 19th and early 20th centuries. And in recent decades, this partnership has assisted in the process of adjustment to structural change, as savings banks have sponsored innovative local start-ups and business parks in cooperation with local authorities in the old mining and steel areas of the West or, after reunification, in structurally weak regions of the East.

Both the German savings bank and the cooperative bank models have proven to be successful in a highly competitive banking sector. The German economy has always benefitted from the secure and stable provision of financial services across all regions by these decentralized banking groups. Looking beyond Germany, one can identify several important constitutive elements of this banking business model, which have been adopted successfully in developing economies' financial sector institution building, namely: the mandate to serve the local economy and community; an emphasis on the importance of both saving and lending; a special focus on the financing of SMEs and start-ups;[11] the pursuit of economic viability rather than profit maximization; and a dedication to financial inclusion, i. e. making skilled and professional financial banking services and advice available to everyone (Schmidt, Seibel and Thomes 2016).

11 A 2010 report by the G-20 Financial Inclusion Experts Group's (FIEG) SME Finance Sub-Group notes that the German savings banks model presents particularly high levels of scale, sustainability and track record and has been replicated successfully in other countries, such as Peru.

4 Conclusion

- Promoting savings is indispensible for sustained investment and growth, regardless of the development stage of an economy. Greater access to financial services for all segments of the population and economic sectors contributes both to the mobilization of savings and the availability of sustainable financing, especially in rural and economically weaker areas.

- Whether in urban or rural areas, improved access to credit, especially for start-ups and MSMEs, is a key factor in broadening the basis for economic growth and development at the local level, as well as—in the aggregate—at the macroeconomic level.

- But credit alone is not sufficient. Not only must the provision of more credit opportunities be managed prudently with good oversight & supervision; the increased supply of credit also requires an adequate legal framework, good governance and, more generally, a strong, sound financial infrastructure together with effective banking institutions.

- Particular types of financial institutions, such as savings and cooperative banks, as well as associated business models, tend to be more effective than others at achieving financial access for all, including in rural and structurally weaker regions, and can serve as safer and more reliable banking partners to start-ups, MSMEs and SMEs than large commercial, investment or wholesale banks.

- A competitive financial sector with an institutionally diversified financial landscape helps improve financial inclusion and fosters more inclusive growth. Decentralized and locally anchored banking structures can also be more resilient in the face of economic shocks and financial crises and mitigate their negative economic impact through countercyclical behavior.

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