

## Book Review

Reinhard H. Schmidt, Hans Dieter Seibel and Paul Thomes. “From Microfinance to Inclusive Banking. Why local banking works.” Sparkassenstiftung für Internationale Kooperation (hrsg. Organ). Weinheim: WILEY, 364 S., 39,90 €, ISBN: 978-3-527-50802-0.

Once considered a “silver bullet” to create and expand microenterprises and alleviate poverty, microfinance recently has faced criticism because of limited evidence of its effectiveness and cases where microfinance has done more harm than helping people out of poverty. Thus, this book that sheds light on microfinance institutions from a historical-hermeneutic perspective is indeed a timely piece of work that should be of high relevance to both academics and practitioners reflecting on the role that microfinance-institutions have in financial and economic development. The interdisciplinary team of authors with backgrounds from financial economics, economic history, and sociology present a thorough historical analysis of local financial institutions and derive implications for global development.

The book covers four chapters. Chapter one “Reflections on Microfinance” reviews the evolution of microfinance, describes and summarizes important conceptual definitions, and puts microfinance into a broader economic and social perspective in which financial institutions emerge and survive. Following this explication, the authors argue that a systematic analysis of historical role models is necessary to advance the discourse on how microfinance institutions are best designed to contribute to economic development. The primary historical case in this book are the 19<sup>th</sup> century German financial cooperatives, that have been widely referred to as “precursors” of modern microfinance. While the authors acknowledge that the historical examples of German savings and cooperative banks may not be entirely externally valid “blueprints” that could be followed blindly to derive best practices in microfinance today and in similar but different contexts, they argue that their approach may stimulate new hypotheses and arguments on how to develop a new practice of microfinance that can work sustainably in the long-run.

The main historical analysis (“the history lab”) is presented in chapter two. This chapter comprises several case studies illustrating early forms of both savings- and credit-based microfinance institutions. The authors present brief international comparative surveys of microfinance institutions in 19<sup>th</sup>-century Europe before discussing specific cases of German financial institutions. This includes a detailed look at the early savings banks in Germany in the late 18<sup>th</sup> century and the diffusion of public savings banks in the wake of the industrialization in the early 19<sup>th</sup> century up until the advent of the first world war. Specific case studies are conducted on “The Aachen Association for Promoting Industriousness” [Der Aachener Verein zur Beförderung der Arbeitssamkeit] founded in 1824/25 and the emergence of the German credit cooperative model in form of the “People’s Banks” and the “Raiffeisen cooperatives”. The authors complement their narrative with “snapshot boxes” that elaborate on important events and summarize the strengths and weaknesses of these early savings banks in SWOT-analyses from a micro-

finance perspective. This chapter is very rich in detail and compiles interesting data sources that have previously only been available in German publications. The chapter then concludes with lessons learned from the history lab and sets the stage for a thorough discussion of modern developments in microfinance in chapter three.

Here, the authors introduce a typology of microfinance institutions (i: informal microfinance, ii: savings-lead microfinance, iii: cooperative financial institutions, iv: microcredit and microfinance NGOs, v: government-owned development banks, and, vi: (commercial) microfinance banks) and present case studies from Africa, Asia, and Latin America. Each section concludes with implications for policy and regulation. Especially the section on microfinance banks draws on a rich set of examples and provides important insights into the different business models from formal institutions in Uganda, Indonesia, and Latin America. Next, the book discusses data sources on financial inclusion and highlights the strengths and weaknesses of datasets and sources of reporting and moves to a discussion of development finance and microfinance as a field of international development cooperation. Here the authors review different phases of development finance. Among these phases and conceptions are development finance as large scale capital transfers (e.g. the Marshall-plan), development finance as capital transfers to the poor, development finance as financial sector deregulation, and, different approaches towards modern micro finance. These sections also discuss the challenges and benefits of commercial microfinance banks and summarizes important arguments of the current debate on the efficacy of microfinance as development policy. After taking stock of the current discourse on microfinance, the authors propose that the historical perspective on effective and inclusive institutions may inform future directions of microfinance development and policy.

Thus, chapter five recaps the results of the historical survey and draws eight general policy-relevant conclusions that are supported by the evidence provided in the historical-hermeneutic analysis. Next, the authors attempt to provide direct, practical lessons for the design of development projects. These can be summed up as follows: (i) “[it is] highly desirable to have institutions with the features of the early German savings and cooperative banks [...], and (ii) [it is] important, [however], to be aware of the possibility that in many countries the conditions under which [such institutions] can function properly [...] simply will not be in place”. This, so the authors, suggests that “simply replicating the German models does not appear to be good [...] development policy.” The book closes with concluding remarks and a summary of insights and recommendations for national and international decision makers.

Overall, this book is a highly interesting and entertaining read that should be of utmost relevance to anyone concerned with financial development. If there is anything to criticize at all, it may be the fact that the current evidence from randomized experiments in economics is dealt with only in a single paragraph (and a footnote) and that the book is strongly focused on the supply side of (micro-)finance. The current academic debate on microfinance (and financial inclusion more broadly) has clearly moved to also considering the demand-side constraints to financial development. And, on a side note, these demand-side factors may have also been relevant factors in explaining the success of the German historical case, since the time of microfinance emergence in Germany was accompanied with an introduction of elements of the welfare-state and general expansion of mass education in Europe. Thus, one key to success of these inclusive financial institutions may be conditional on broader institutional and demand-side characteristics.

The main contribution and strength of this book, however, lies in the creative and thorough historical analysis of the German financial cooperatives. It gathers rich historical information and puts these insights nicely into perspective of the current debate on microfinance which, all too often, appears to be focused on short term effects. Thus, this book is a must read for anyone who is interested in a nuanced perspective that a careful comparison of different institutional designs and historical pathways can offer. The verdict: Highly recommended.

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