

»» DEG – We finance opportunities in future markets

DEG – Deutsche Investitions- und Entwicklungsgesellschaft mbH

Improving access to financial services through public-private collaboration

2015 General Assembly of the 4C Association
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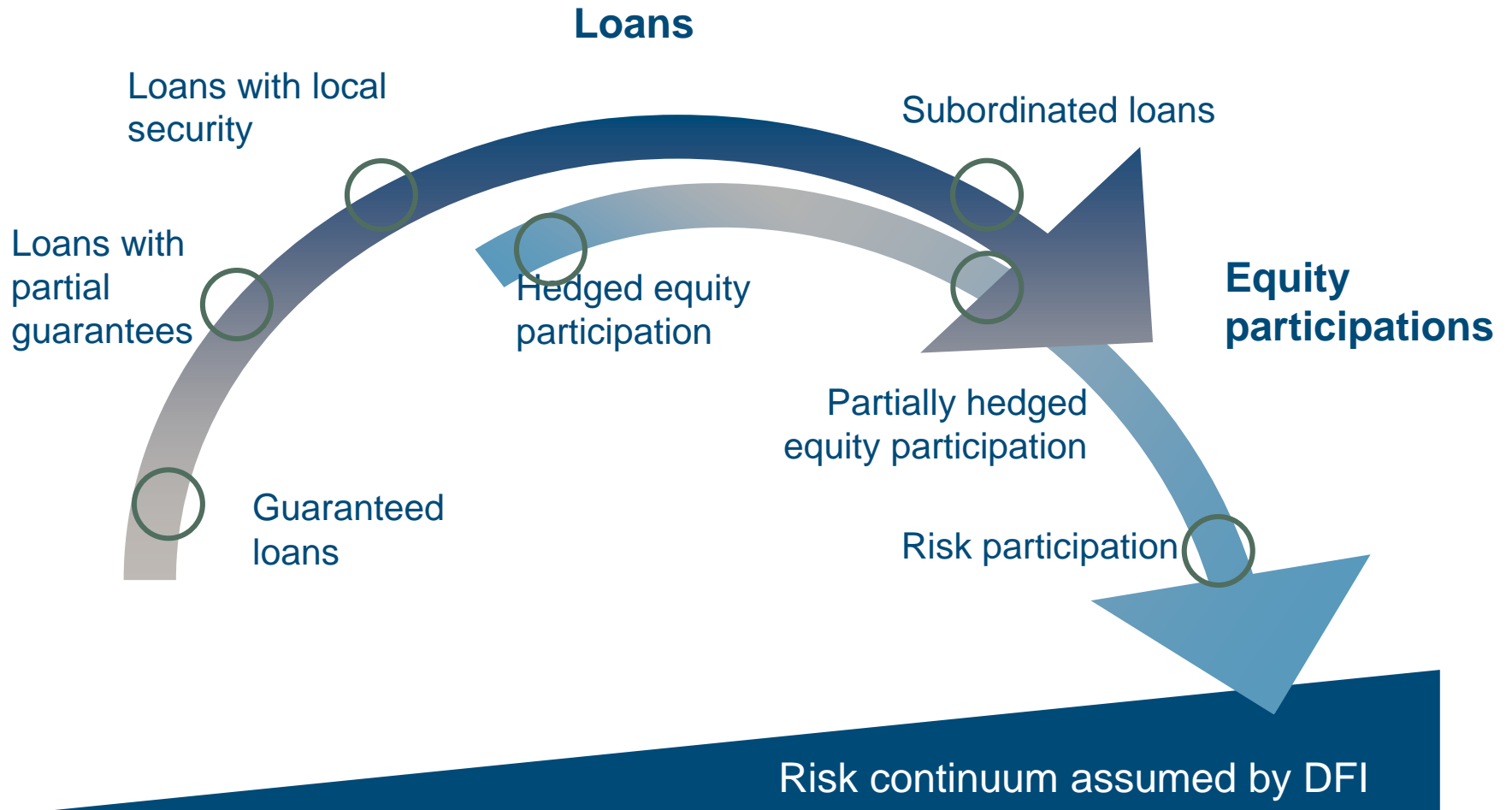
KFW DEG

»» Finance in the coffee sector – an overview of key partners

There is considerable private, public and philanthropic commitment in coffee sector financing, mainly through:

- Commercial value-chain players (Traders, Exporters, Roasters etc.)
 - Donors and foundations (Governments, Bill & Melinda Gates Foundation, Mastercard Foundation, Rabobank Foundation, etc.)
 - Guarantee Facilities
 - Commercial Banks
 - Public funds and public-private facilities (e.g. IDH)
 - Multilateral bodies (The World Bank, UN, EU)
 - Technical Assistance Providers (Financial Alliance for Sustainable Trade, NGOs etc.)
 - Development Finance Institutions (IFC, KfW/DEG, FMO, Proparco etc.)
- For many smallholder farmers, however, access to finance is limited, even though it could play a crucial role to increase productivity and sustainability.

»» Scope of DFI funding



»» DEG as one example for DFI funding

Instruments and key figures

Loans & equity

- › Contribution to sustainable economic growth and poverty reduction through promotion of private sector development in emerging markets
 - › Provider of long-term capital for private enterprises
 - › Usually tenor of > 4 years up to 15 years
- › „Additionality“ by definition; complementary financing to commercial banks / PE funds

Additional Services

- › Availability of technical assistance funds (TA) to support feasibility studies
- › E&S management systems
- › Special programs (CPT, develoPPP.de, Upscaling)



- | | |
|-----------------------|------------------------|
| › Established | 1962 |
| › Employees | 500 |
| › Head office | Cologne |
| › Shareholder | KfW Frankfurt |
| › Equity | EUR 1.9 billion |
| › Balance sheet total | EUR 4.8 billion |
| › New business | EUR 1.5 billion |
| › Portfolio | EUR 6.8 billion |

»» Access to finance for small-scale producers

Lessons Learnt from the Coffee Partnership for Tanzania



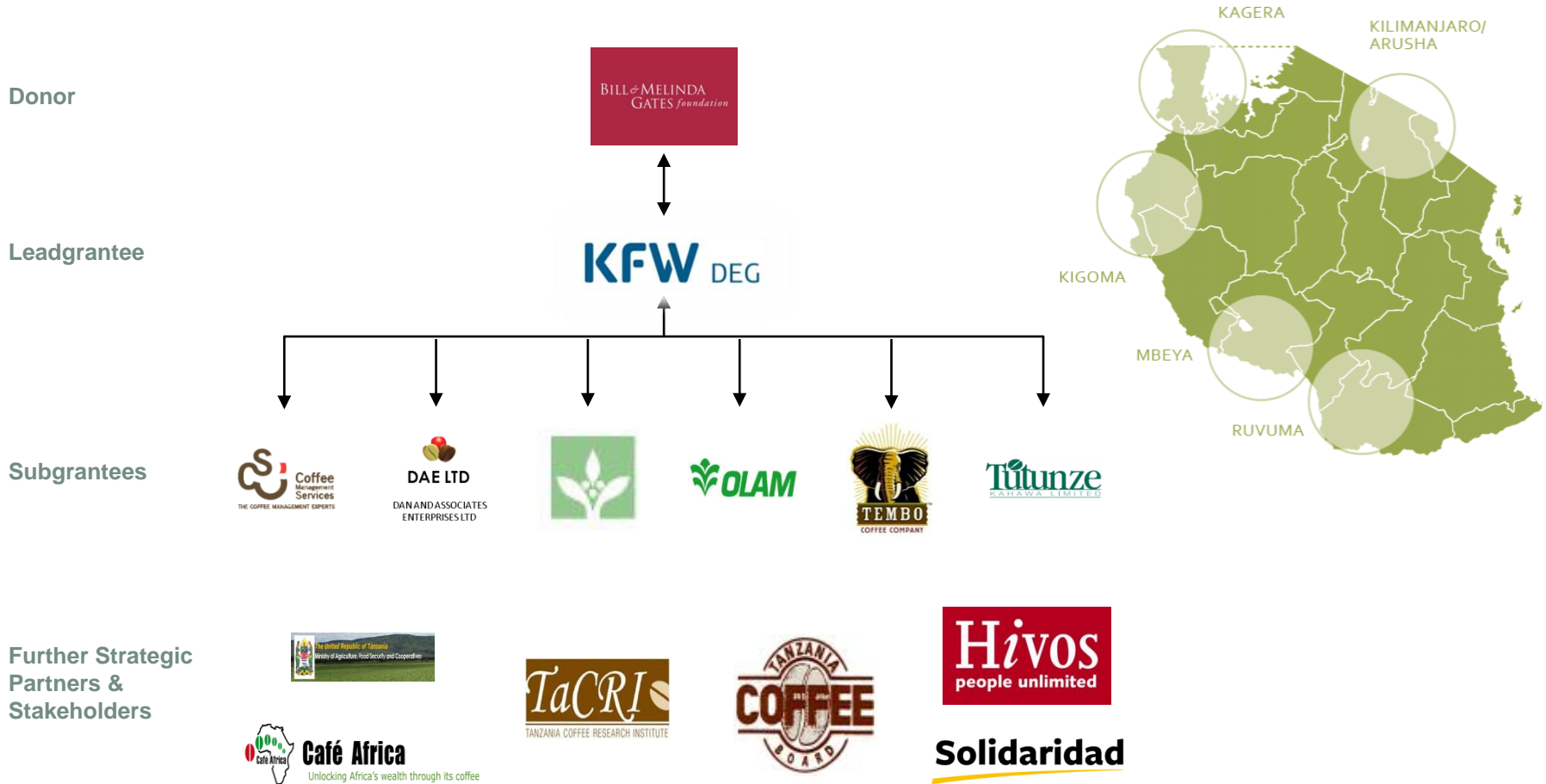
The Coffee Partnership for Tanzania (CPT)

- is a partnership supported by the Bill & Melinda Gates Foundation.
- is managed by DEG and implemented in close cooperation with its partners from the private sector, who substantially co-finance the activities.
- aims at increasing the net income of 90,000 male and female smallholder coffee farmers in Tanzania, largely by doubling their yields, thereby improving the livelihood of over 500,000 Tanzanians.
- Provides good opportunities for further public/philanthropic-private collaboration and additional investments.



»» CPT: The Project Setup

Six key implementation partners supporting 90,000 farmers



»» What we've learnt in the CPT...

As in many countries, smallholder farmers lack access to finance in Tanzania

Key challenges of small-scale farming in Tanzania:

- Moral hazard in the form of side-selling
 - Lack of collateralisable assets
 - Low financing volumes and high transaction cost
 - Volatile commodity prices and crop failures
 - Lack of organizational development and management capacity
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- **Leads to lack of access to finance, notably pre-harvest input finance.**
 - **Constitutes a missed opportunity to help improve productivity and sustainability!**
 - **Significant cooperative strengthening and technical assistance with regard to financial literacy must precede or co-exist with any financing intervention in the country. Thus, building access to inclusive smallholder agricultural finance means, most of all, building well-governed and effectively managed producer organizations.**

»» ...and from key stakeholders in East Africa

Take-aways from the 4C Sustainability Forum and the 4C, ICO, IDH, AFCA & DEG expert workshop held in Nairobi in February 2015

- A more holistic view on the farming household system and its particular financing requirements is needed.
- Sustainability standards are not only good tools to move towards higher levels of sustainability and productivity, but also play an important role in creating the pre-conditions of access to finance for small-scale producers. However, one needs to go beyond certification/verification and support farmer entrepreneurship and financial literacy to improve financial inclusion.
- At the same time, agricultural literacy for bankers is needed, to improve the availability and success of financial products.
- The application of a 'gender lens' helps to maximize impact.

»» Addressing financial inclusion in Tanzania

Exploring possible pathways to improve access to finance for smallholders

▪ What we already do in the CPT:

- Organizational development and promotion of financial literacy/basic business skills, both preconditions to successfully roll out finance.
- Issuing of post-harvest loan facilities and promotion of savings at individual farmer and producer organization level.
- Limited direct pre-harvest financing by coffee traders.
- Mobilization of commercial bank financing to coffee smallholder producer groups.

▪ What still needs to be done:

- IDH and DEG, will jointly commission a pre-feasibility study to explore possible pathways to smallholder agricultural finance in Uganda and Tanzania.
 - Interviews with key public and private stakeholders in both countries to explore solutions including risk-sharing agreements, a first-loss tranche facility and a more conducive regulatory environment.
- Further improve financial literacy and entrepreneurial skills to improve the bankability of smallholder farmers.
- Expand financial inclusion and deepening through innovative, mobile-based technologies.
- Build or expand partnerships with banks, enterprises throughout the value chain and project implementers/initiatives.

»» Conclusion

How to build, expand and sustain support and financing of the sector

- There are vast opportunities of public, private (and philanthropic) finance to tap in to at the SME or corporate level, but access to finance for smallholder farmers, especially pre-harvest, still remains a major challenge.
- A collaborative sector approach, involving public and private sectors, donors, financial service providers is essential to manage risk, develop holistic solutions and sustainably further improve financial inclusion in the coffee sector.
 - 4C/ICO/IDH's Vision 2020 is a very good example how this can work!
- More commitment is needed – from banks, donors and pre-competitive initiatives or commercial stakeholders such as traders and roasters – to expand the scope and tenure of the current commitment and to meet the sector's entire upstream-level demands in coffee financing and beyond.
- In the specific Tanzanian case, initiatives such as the *East African Coffee Initiative* or the *Coffee Partnership for Tanzania* have already supported tens of thousands of coffee producers – but are often perceived as playing a stronger role than they are capable of.
- In Tanzania there is a high potential (and need) for large productivity improvements and coffee sector development, with the potential for further expansion. Initiatives willing to make a difference in coffee can build on these existing initiatives, structures, relationships and lessons learnt.

»» THANK YOU FOR YOUR ATTENTION



Special Programmes

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