

Financial system development

Precondition for growth and prosperity

A properly functioning financial sector is of key importance in the economic development of any country. Its effects are very concrete and tangible for every individual and all the more so for the poor population of developing countries. A smooth payment system makes people's everyday life easier. By means of savings products, people can safely set aside money for larger investments, while microcredits enable them to set up their own businesses. With a broad variety of investment and promotional measures, KfW is making an important contribution to the establishment of stable financial systems in developing countries and the provision of financial services for poorer people.

Context

A well-functioning financial system is one of the key cornerstones of an economy. Financial institutions mobilise funds for investments, which are paramount for widespread growth. Cashless payments ensure the rapid and secure processing of transactions, thus improving the efficiency of economic processes. Savings products give people the opportunity to keep their money somewhere safe and accumulate enough to make larger investments. Microcredits make it possible for new companies to be founded or an existing business to be kept going, in this way securing the livelihoods of many. Loans to small and medium-sized enterprises (SMEs) create the basis for capital investment, boost productivity and increase competitiveness, thus making an essential contribution to safeguarding jobs. The provision of life and health cover or insurance against failed harvests offer many people, in particular poor people, the chance to protect

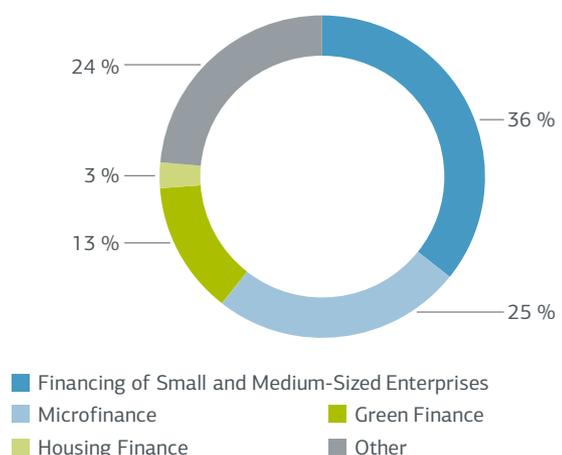
themselves and their families against life's adversities, such as disease, death or natural disasters. But in many countries the availability of a wide variety of financial services, accessible to all, cannot be taken for granted. Even now, 2.5 billion people have no access to formal financial services, according to World Bank estimates.

The KfW development approach

With a broad range of conventional and innovative financing instruments, KfW is helping to develop the financial systems of developing countries in many different ways. Financing lines, equity investments or guarantees are being used by KfW as tools to help (micro) financial institutions start providing or develop new financing products for particular customer segments. These may be long-term loans for the financing of SMEs' fixed assets, but may also take the form of affordable financing for private housing property. Financing via structured funds, for example the European Fund for Southeast Europe (EFSE), leverage scarce public financial resources with funds from private investors, further broadening the impact of

Current portfolio Financial system development by area of promotion

Total volume: EUR 7.4 billion



German Financial Cooperation. Furthermore, through accompanying, basic and advanced training measures, KfW assists its partners in establishing credit technologies, training their employees or improving their risk management. KfW's aspirations in terms of sustainability and responsible finance are its guiding principles.

The current KfW portfolio in financial system development amounted to almost EUR 7.4 billion at the end of 2014. Additional funds totalling EUR 1.4 billion were committed for new projects in 2014. More than two thirds of all ongoing projects are aimed at promoting the financing of SMEs and micro-finance. The high-priority regions are (South)eastern Europe/the Caucasus and Asia/Oceania, with each accounting for projects with a total volume of around EUR 2 billion. However, KfW is increasingly promoting supraregional approaches, particularly in Africa, which already made up around EUR 1.8 billion of the total project portfolio for financial system development at the end of 2014.

Agricultural financing is becoming increasingly important. In view of a growing global population and advancing climate change, food security will in future become one of the most pressing issues of all. To meet this challenge, farms and most smallholders have to be helped to increase their production capacities and improve their resilience against extreme weather events and other unforeseen developments. Appropriate financing, insurance and advice play an important role in this. KfW is at its partners' side with good ideas.



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Growing seedlings in the greenhouse of a market garden.
Source: KfW Photo Archive/Rendel Freude

Georgia – Loans for farmers

With its fertile soil and great climatic diversity, Georgia is a country with substantial agricultural potential. KfW hopes that its agricultural financing programme will assist in making the most of this potential.

In both phases of the project, long-term financing in local currency worth EUR 14 million was provided to two banks and two Georgian micro-finance institutions to enable them to facilitate tailored credit products for small agricultural enterprises. In this way, the project addresses one of the main obstacles to development that these enterprises face. It provides access to financial services that are designed to meet the specific requirements of the agricultural sector. A consulting measure costing EUR 0.6 million and financed from the EU's Neighbourhood Investment Facility successfully supported the partner financial institutions in developing agricultural credit technology and training staff to use it.

This programme has enabled the participating financial institutions to significantly develop their agricultural credit portfolio in different segments, such as fruit and vegetable growing, animal husbandry or the further processing of agricultural products. Beyond the financing of consumables, they also increasingly offer their customers long-term loans for urgent investments. Motivated by additional lending business, the institutions have also further expanded their branch networks.