



2007 Financial Sector Development Symposium

Mobilising Capital for the Poor

—

What Can Structured Finance Contribute?

15 and 16 November 2007

KfW, Berlin

Concept Paper

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October 2007

1 Background

The Financial Sector Development Symposia are an established annual tradition of KfW Entwicklungsbank in cooperation with the German Federal Ministry for Economic Cooperation and Development (BMZ). They are held under the auspices of Ingrid Matthäus-Maier, Spokeswoman of the Board of Directors of KfW. Each event features a new thematic focus for state-of-the-art contributions and discussions by a select group of leading professionals and aims to foster knowledge exchange and new initiatives. The scope of the symposia series has broadened over the years to encompass financial sector development and access to finance as a means of contributing to the Millennium Development Goals (MDGs) aimed at reducing poverty.

2 The Symposium in 2007

The 2007 Symposium will focus on structured finance¹ as a means of mobilising capital for the poor in developing and transition countries. It will explore and critically probe the developmental contributions of structured finance, identifying opportunities, risks, challenges and limitations. This will be complemented by vetting the prospects of new applications of structured finance and its potential contributions to financial sector development in the years to come.

Mobilising capital for the poor through structured finance is the theme for 2007. The demand for finance and better access to it remains high, especially for micro or small businesses and for low income households. For these groups, in addition to financing for business and housing, new fields such as energy efficiency or education finance have been identified for development co-operation. The supply of finance, however, remains highly constrained and very uneven. Financial intermediaries, for instance, lack adequate refinancing and the appropriate tools, processes and products to make financing more readily available and accessible, especially for low income groups and for longer-term investments.

This mismatch between supply and demand has attracted much attention among donors, development finance institutions and governments. More recently, it has generated increased interest also among private investors. This provides a dynamic environment in which new partnerships and approaches are continuously being sought to narrow the financing gap.

In this context, structured finance is emerging as a premier instrument to mobilise capital for investment in development from the broadening range of possible investors. Applying structured finance as an instrument of advanced financial sectors to developing and transition countries constitutes a natural step. It opens a new door for development finance – complementing and building on existing approaches, instruments and sources of capital as we know them. As mobilising capital for the poor to improve access to finance requires more sources of

¹ Structured finance is understood here to cover both securitisation transactions and structured investment funds. The family of securitisation instruments includes true sale securitisation instruments such as asset backed securities (ABS) and collateralised debt obligations (CDO), synthetic securitisation instruments such as credit linked notes and credit default swaps and, lastly, future flow securitisations and similar transactions such as deferred payment rights (DPRs). Structured finance creates a set of different categories of risks out of one type of risk, such as a portfolio of loans. Due to the different risk classes, a wider range of investors can be attracted.

sustainable finance than public or donor money alone can provide, structured finance:

- taps new sources of financing by balancing and sharing risks among different types of investors – in both the public and private sectors;
- makes financing possible by pooling and structuring risks where country risk ratings are otherwise prohibitive or too expensive for investment;
- allows for growth by relieving portfolio constraints on financial intermediaries serving low-income households and their enterprises; and
- contributes to the availability and greater sustainability of financing and to the development of capital markets and inclusive financial systems, thereby contributing significantly to improving the living conditions of low-income households and to the achievement of the MDGs.

The 2007 Symposium will be a forum to explore structured finance as a new generation of development finance to benefit low-income groups in developing and transition economies. The two-day exchange aims to identify the current frontiers and what future prospects structured finance offers to sustainably mobilise capital to benefit the poor by linking local and international capital markets. Probing the developmental contributions by exploring the opportunities but also the challenges and limitations of structured finance will be one focus. How donors and development finance institutions can further build the bridges to international investors and facilitate additional financing which benefits low-income groups will be another.²

Expert presentations in each session will introduce core issues as a basis for the panel discussions. Leading professionals in financial sector development and structured finance, donors, development finance institutions, bankers, financial managers and researchers will review experiences, share approaches and explore new initiatives.

The Symposium offers the German Development Cooperation, KfW and their partners the opportunity to discuss and assess their efforts to serve micro and small entrepreneurs and low-income households by developing inclusive local financial systems and linking them to international capital markets in sustainable ways. It also provides a forum to forge new partnerships and develop new ideas, while strengthening existing partnerships and collaboration. Leading innovators in development finance have an opportunity to foster new ways of contributing to creating assets in poor societies. As in the past, the expert papers presented at the Symposium will be published. The Symposia publication series provides reference points for new approaches and initiatives in development finance. Its readers include policymakers, practitioners and researchers.

² The 2007 Financial Sector Development Symposium builds on a one-day workshop on “Reducing Barriers for Investments in Microfinance – The Role of Structured Finance, Rating and Benchmarking” KfW organised in September 2006. The workshops’ far narrower scope attracted tremendous interest from international participants. The Symposium offers the opportunity to broaden and deepen the discussions, adding value also by combining the developmental and political economy perspectives with the technical aspects of structured finance instruments. It will furthermore explore their usefulness for different sectors, such as micro and small enterprise and housing finance.
http://www.kfw-entwicklungsbank.de/EN_Home/Topics/FinancialS15/Events29/Workshop_2006.jsp

3 Symposium Topics

3.1 **Mobilising Capital for the Poor – How does Structured Finance Fit?**

Provides an introduction and first overview to structured finance and how it fits with development finance.

How did we arrive at structured finance in financial sector development and in sourcing new financing for developing and transition countries? What are key issues of current debate or controversy around the application of structured finance in these markets?

3.2 **Mobilising New Means to Attract New Capital – Is Structured Finance Appropriate or Vulnerable to Crises?**

Highlights opportunities, challenges and limitations of structured finance instruments (structured funds, CDOs, true sale or DPR securitisations) in leveraging private capital.

What are opportunities, challenges and limitations of structured finance instruments in leveraging private capital for originators in developing and transition markets? Readiness & opportunities versus asymmetries and risks in light of the lessons of the sub-prime induced market crisis.

3.3 **Mobilising the Right Mix – Competing or Complementary Investors?**

Explores the roles and contributions of different stakeholders – especially of donors, development finance institutions (DFIs), and private investors with a view to roles such as facilitators, catalysts or anchors and as investors (with different and perhaps competing interests).

Motivations, risk appetite and market responses of private and development finance investors – what do they contribute, where do they compete, where do they complement?

3.4 **Mobilising Structured Finance for Development – Added Value or Just More of the Same?**

Explores the developmental contributions and effects of structured finance on low-income people and entrepreneurs, financial intermediaries and financial sectors in developing and transition countries (is it merely a substitute for other refinancing instruments or does it add more value?).

Is structured finance just another refinancing instrument or does it add more value? What are the effects – risks as well as opportunities – on financial markets, on financial institutions and on their clients?

3.5 **Mobilising Structured Finance for New Fields – Ready for New Applications?**

Highlights initiatives and explore ideas for further applying structured finance, e.g. to other asset classes and types of investments.

How can we improve on current deals and achieve a greater diversity of underlying asset classes and investors? What drives the markets and how can they move forward? What takes us downmarket to a sustainable use of structured finance for small ticket clients?

3.6 **Mobilising Structured Finance to Benefit the Poor – More than Lofty Ideas?**

Take stock and paint a scenario of where structured finance could be in terms of mobilising capital for the poor five years hence.

Is mainstreaming and retailing structured finance products desirable for our markets? Is risk adequacy possible or a fallacy? Can structured finance weather the crisis and come out stronger, including for our markets & clients?