

# Financial Market Development in developing countries

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## Financial Market development

What comes first?

Savings

Lending

## Financial Market development

What comes first?

Savings?      *No – first comes work/income*  
                          - *Consumption today or*  
                          - *consumption tomorrow = savings*

## Financial Market development

What comes first?

Lending?              *No – someone who want to borrow*  
                              - *investor*  
                              - *interesting investments Profit/Risk*

Two big problem areas to look at

- The financial perspective
- The investors perspective

## **The financial perspective**

Private Sector Banking Experience

Funding

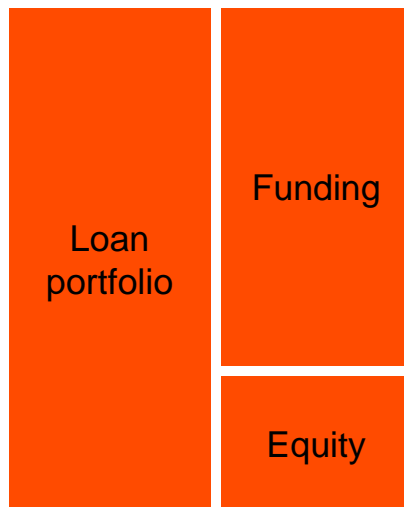
- Equity
- Domestic savings
- International lending (Savings)

Lending

- Customer
- Market
- Time frame in housing lending

*Financial Risk*

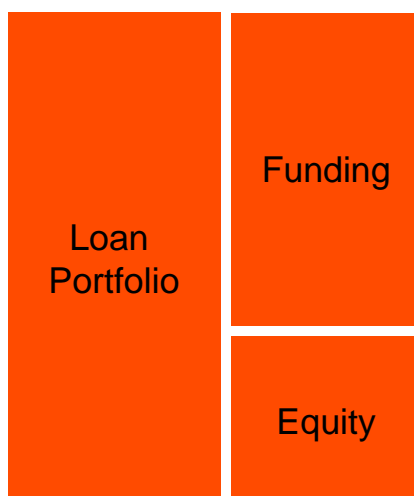
## Financial Risk



### Funding

- Access to capital
- Equity (BASEL II)
- Balance between funding and lending (Expiration time)
- Exchange risk

## Financial Risk



### Lending portfolio

- Customer
- Market
- Long term

### Risk for bankruptcy

### Risk at bankruptcy

- Collaterals

## Transaction cost

- Administration cost is the same for a small loan as for a big loan.
- Must effect the price or be subsidize

## Cooperation

- Cooperation is essential for success
- One of the most important working methods for ERSO

## Investors perspective

### Interesting investments

- Profitable in relation to risk
- Alternative investments

### Risk factors

- Customers ability to buy or rent
- Customers needs
- Political stability
- Economic stability



Risk factors are normally too high in the first step to build housing for the poor

Willingness and interest from central/local government are essential

This is not only important for housing for the poor – it is essential for the whole country

*Construction and real Estate market as an engine for Economic development – next presentation*