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Financial Intermediation Lending

An investment lending modality

19-23 August 2024 | ADB Headquarters, Philippines



ADB

Sovereign lending and grant modalities



Project lending



Financial intermediation lending



Policy-based lending



Results-based lending



Sector lending



Emergency assistance lending



Contingent disaster financing



Project readiness financing



Credit enhancement products



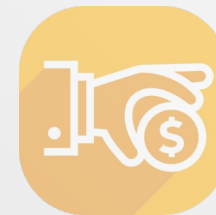
Multitranche financing facility



Sector development program



Special PBL & countercyclical support facility



Small expenditure financing facility



Technical assistance

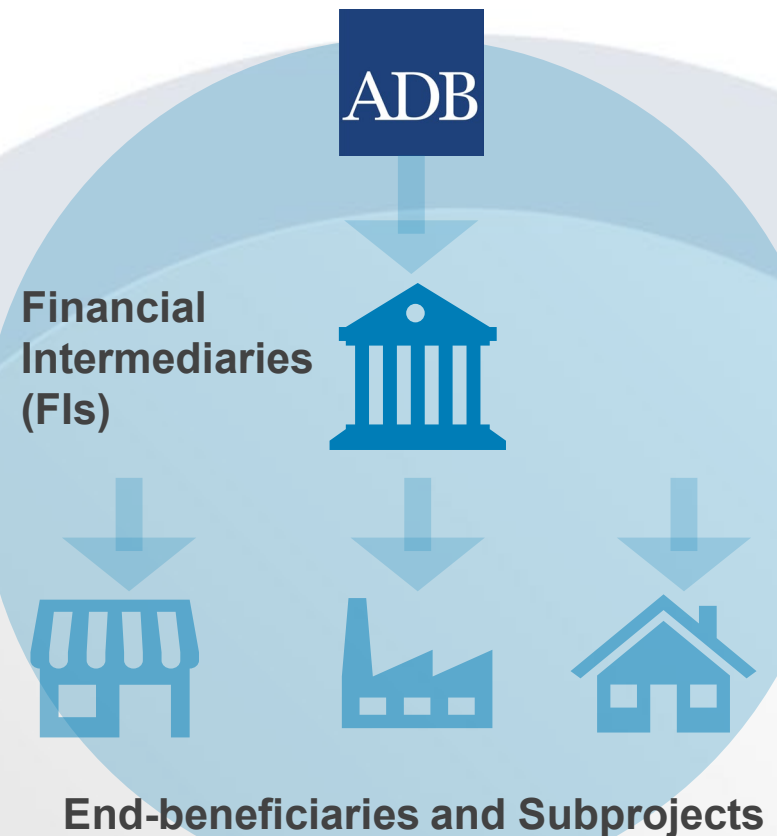
Financial intermediation lending (FIL)

ADB may provide loans to financial intermediaries to finance specific development projects whose individual financing requirements are not large enough to warrant the direct supervision of ADB.

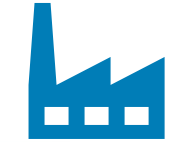
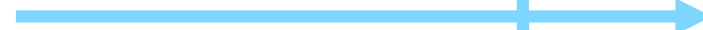
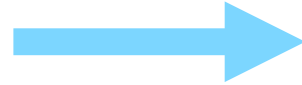
Objectives

FILs will support the DMC's private-sector driven economic growth and poverty reduction by:

- furthering policy reforms in the financial and real sectors;
- financing real sector investments through market-based allocation mechanisms;
- strengthening the capacity, governance, and sustainability of financial intermediaries; and
- helping increase the outreach, efficiency, infrastructure, and stability of the financial system.



Roles and responsibilities



ADB

- Assesses FI performance and position
- Analyzes market failures and distortions
- Proposes regulatory and institutional reforms for financial market and financial intermediaries
- Provide capacity building support
- Support DMCs to undertake monitoring and evaluation

FINANCIAL INTERMEDIARY (FI)

- Selects and appraises subloans or other financial instruments
- Provides subloans or other financial instruments to borrowers or beneficiaries by taking on credit risk
- Must have good capacity in credit appraisal, financial management and safeguard management

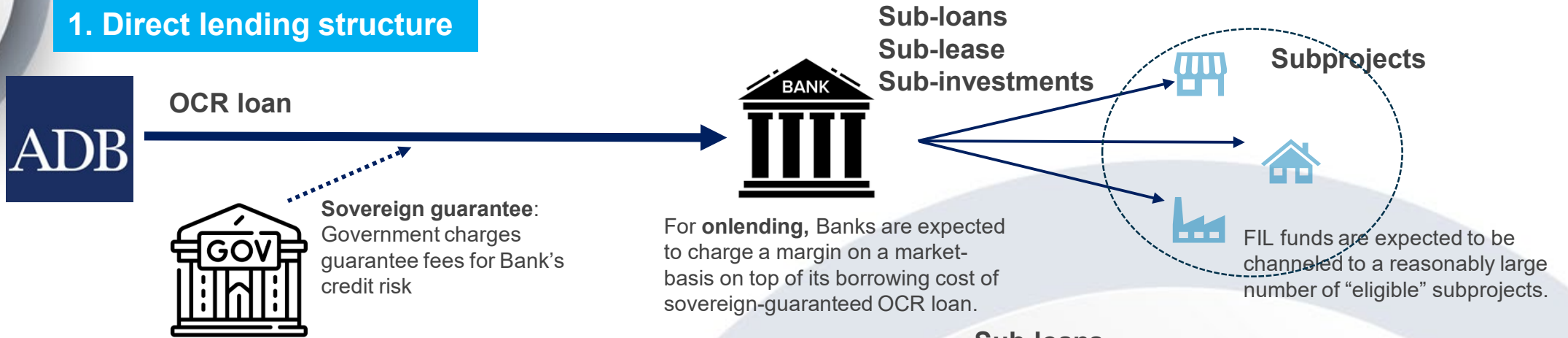
END-BENEFICIARIES SUBPROJECTS

- Both private and public sector subprojects can be financed – such as SMEs, infrastructure, affordable housing, etc.
- Subprojects must be financially viable
- Subprojects must be complied with ADB's safeguards and other requirements

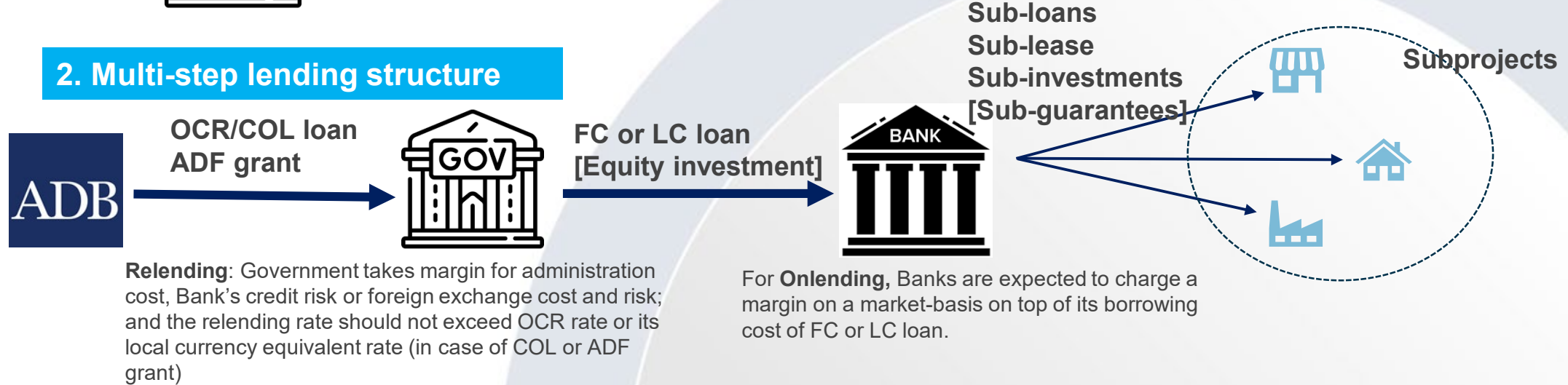


Two structures

1. Direct lending structure



2. Multi-step lending structure



Note: It is possible for the both schemes to have a multi-layer of financial intermediaries. For example, ADB or the government lends/re-lends to an apex (or wholesale) financial institution (1st layer), which re-lends to multiple financial institutions (2nd layer) that on-lend or on-invest to subprojects.

Strategic Considerations



LOAN AMOUNT DETERMINATION

- Effective demand of financing at subproject level
- Type and expected size of subloans
- Expected financial leverage, concessionality, and cofinancing arrangements
- FI's record of performance
- FI's management capacity
- FI's appraisal standards



ISSUES TO CONSIDER

- Good capacity of FI and Sound regulatory environment
- FI incentives to draw down credit line or lend to target borrowers
- Macroeconomic and financial stability
- Market failures or distortions in financial and real markets
- Facilitate domestic resource mobilization



NON-FINANCIAL BENEFITS

- Institutional and governance reform of FI
- Introduction of new financial products
- Better financial outreach
- Catalyzing private sector investment
- Promoting entrepreneurship