Summarizing the strategic direction of Asian Development Bank (ADB) support for the finance sector, this Finance Sector Directional Guide (FSDG) explains the agenda informing ADB’s assistance to developing member countries (DMCs) through financing, knowledge management, and technical assistance (TA)—to improve the coherence, efficiency, and effectiveness of the bank’s finance sector investments.

Aligned with Strategy 2030 and its seven operational priorities, the FSDG notes achievements under ADB’s Financial Sector Operational Plan (FSOP), 2011–2022, which serve as foundations for achieving enhanced targets until 2030. Reviewing the finance sectors of DMCs, the FSDG proposes six focal areas for improvement, an implementation plan, and ways to acquire the required knowledge and expertise.
Where We Are

The economic environment in Asia and the Pacific has been changing rapidly, bringing new challenges and opportunities for developing countries in the region. ADB launched Strategy 2030 to serve its vision of achieving a prosperous, inclusive, resilient, and sustainable region.

Despite past efforts and achievements, the development of the finance sector in Asia and the Pacific still lags substantially behind that of developed economies. DMCs in the region face multiple and divergent finance sector development challenges. As they cope with maintaining financial stability in the post-COVID-19 period, DMCs need to develop their finance sectors; enhance financial inclusion and access, especially for micro, small, and medium-sized enterprises (MSMEs) and women; and create an enabling environment for digitalization of finance. They must also develop their capital markets and build the institutional investor base to raise funds to achieve the Sustainable Development Goals (SDGs), build quality infrastructure, mitigate and adapt to climate change, and address disaster and pandemic risks.

ADB can help DMCs to address these challenges and there are new financial products and tools to support financial development. The rapid adoption of digital technology in finance offers great potential to enhance financial inclusion and environmental sustainability. Blended finance solutions can improve the bankability of projects supporting green finance solutions for banks and their customers. Increasing demands for infrastructure finance and disaster risk finance provide opportunities to develop capital and insurance markets, as well as the institutional investor base. Lastly, public-private sector solutions are important to crowd-in the private sector to help mobilize funding to address some of these critical issues facing our DMCs, such as climate change.

Where We Want to Be

Gaps exist between the 2011 FSOP and the operations of the finance sector needed to support Strategy 2030. To support Strategy 2030, the FSDG presents its theory of change—which identifies impacts, outcomes, and outputs—based on its six areas of operational focus for the ADB’s finance sector operations. It discusses how the finance sector can contribute to the strategy’s seven operational priorities given the finance sector’s cross-cutting and pervasive impact; and addresses emerging areas such as the SDGs, climate change, disaster and epidemic risks, and the rise of digitalization. Building on this discussion, six areas of operational focus for the finance sector are proposed, categorized into three main groups—catalyzing, inclusive finance, and foundational.
Operational Focus 1: Enhancing support to emerging areas such as SDG-aligned financing, including green and blue financing

Support to emerging areas such as climate finance, green and blue financing, and agricultural value chain finance should be enhanced by:

(i) aligning ADB’s investments and lending portfolio (sovereign and nonsovereign) with the Paris Agreement to make the organization’s financial flows consistent with a credible transition pathway toward low greenhouse gas emissions and climate-resilient development;
(ii) creating a pipeline of bankable green projects through financial institutions;
(iii) developing and utilizing diverse innovative green financial instruments;
(iv) developing and implementing globally aligned green taxonomies and frameworks;
(v) incorporating climate and other environmental and sustainability-related risks and impacts in all risk assessments and financial decision-making processes;
(vi) catalyzing blue financing for projects designed to protect and restore marine ecosystems; and
(vii) creating an enabling environment and building the capacity of financial institutions for agricultural value chain financing.
Operational Focus 2: Promoting long-term finance and quality infrastructure

To fill the financing gap for infrastructure investment, long-term private finance should be promoted by:

(i) developing domestic capital markets by establishing capital market infrastructure, adopting international standards for regulatory and supervisory frameworks, and enhancing corporate governance;
(ii) developing contractual savings institutions such as insurance companies and pension funds;
(iii) elevating infrastructure as an asset class, by improving the capacities of DMCs to measure and maintain historical data on infrastructure asset performance;
(iv) building quality infrastructure through stronger governance and better maintenance; and
(v) preparing bankable projects and creating an environment attractive to institutional and foreign investors.

Operational Focus 3: Leveraging digital technology to deliver financial services for financial inclusion

Digitalization of finance and financial inclusion should be promoted by:

(i) evaluating, designing, and implementing enabling digital infrastructure, including information and communication infrastructure, national digital ID systems, and interoperable payment systems;
(ii) providing funding and capacity building for adoption of digital technologies in finance;
(iii) establishing a legal and regulatory framework to promote competition and partnership between financial technology (fintech) companies and financial institutions;
(iv) addressing the risks and problems involved in digitalizing finance;
(v) supporting DMCs’ efforts to promote and invest in fintech; and
(vi) ensuring that adequate, affordable financial services are available to migrants, and reducing the costs of migrant remittances.
Operational Focus 4: Expanding financing to MSMEs and women

Support to financing for MSMEs and women should be expanded by:

(i) strengthening the capacity of banks in originating and monitoring MSME loans;
(ii) providing credit to MSMEs through fintech and alternative credit scoring systems;
(iii) enhancing secured lending regimes through reliable collateral registry and efficient contract enforcement mechanisms;
(iv) developing credit bureaus and publicly available credit risk databases;
(v) expanding the coverage of ADB’s microfinance program;
(vi) leveraging credit enhancement products to attract private funds and capital market resources;
(vii) developing performance guarantee schemes for MSMEs;
(viii) designing and establishing capital market ecosystems for startups and ventures;
(ix) expanding the range of microfinance services and utilizing crowdfunding; and
(x) supporting activities of women microentrepreneurs.

Operational Focus 5: Establishing frameworks for disaster and epidemic risk financing

To manage the economic and fiscal impacts of disasters, DMCs should establish a national framework for disaster risk financing by:

(i) preparing disaster financial planning through development of policies and financial instruments that allow governments to secure access to financing for relief, recovery, and reconstruction efforts;
(ii) providing a wider portfolio of risk transfer and insurance solutions through disaster insurance pool programs;
(iii) increasing investment in disaster risk reduction through creation of bankable disaster risk reduction projects; and
(iv) creating and implementing regional public goods to help DMCs deal with epidemic or pandemic disease.
Operational Focus 6: Strengthening the finance sector foundation

Implementation of the first five areas of operational focus for the finance sector will be supported by efforts to strengthen finance sector foundations in financial development, financial stability and integrity, and regional financial cooperation. The foundations for finance sector development and the banking sector should be strengthened by:

(i) developing central banking and public debt markets;
(ii) building and maintaining a reliable financial infrastructure; and
(iii) enhancing the banking system through upgrading of the regulatory and supervisory framework, and promotion of sound governance and risk management.

The financial stability and integrity of DMCs can be improved by:

(i) designing and implementing macroprudential and microprudential policies;
(ii) examining the need for and the design of deposit insurance;
(iii) developing approaches to ensure soundness of systemically important financial institutions; and
(iv) building nonperforming loan resolution frameworks.

Regional financial cooperation can be promoted by:

(i) supporting regional initiatives to build resilient regional financial markets and enhance regional financial safety nets;
(ii) supporting subregional groups of countries, including the Association of Southeast Asian Nations (ASEAN); ASEAN plus the People’s Republic of China, the Republic of Korea, and Japan (ASEAN+3); and the Central Asia Regional Economic Cooperation program; and
(iii) exploring possibilities to establish regional frameworks for disaster risk financing and pooling and nonperforming loan (NPL) resolution.

What We Will Do

Implementation of the FSDG will be based on six guiding principles:

1. Exploring Innovative Modalities and Products

In response to emerging areas and DMCs’ changing needs, ADB’s business models and products should be reviewed and adjusted, exploring innovative solutions. These include taking a regulatory capital approach to climate risks, utilizing policy-based loans and financial intermediation loans for climate finance, and promoting SDG financing, including green and blue financing. They also include utilizing de-risking products, such as credit guarantees and performance guarantees, exploring the use of local currency financing in thematic bonds, and establishing green bond taxonomies and climate bond standards.

2. Expanding Private Sector Operations

Strategy 2030 emphasizes the expansion of private sector operations, to become one in three of ADB projects by 2024. The private sector mobilizes resources, creates jobs, and drives innovation and efficiency. Given the limited fiscal space of DMCs, private and institutional investors’ participation is essential to meet high demands for climate and infrastructure finance, as well as the rising needs for disaster risk finance, and other undeveloped areas.
3. Taking Differentiated Approaches to Address Diverse Client Needs

In line with Strategy 2030, differentiated approaches will be applied to each DMC to address the specific finance sector development needs and challenges. Small island states, sensitive and conflict-affected areas can be fragile—and have a particular need for stronger institutions. Therefore, finance sector operations in such countries will focus on establishing the basic financial infrastructure to build public confidence in the financial system while helping them pursue progress in infrastructure, financial inclusion, and climate mitigation and adaptation. Low- and middle-income countries need to improve financial infrastructure and enhance the capacity of banks and nonbank financial institutions. Upper middle-income countries also face complex development challenges, including developing capital markets and institutional investors and strengthening banking sector capacity.

4. Achieving Quality Finance Operations through Cross-Sector and Thematic One ADB Approach

Considering the complex, multidimensional, and transnational nature of the seven operational priorities, Strategy 2030 explicitly articulates and promotes adoption of the One ADB Approach to bring together expertise and knowledge across the institution. The finance sector operations suggested in the five focus areas aligned with Strategy 2030—and in one area on strengthening the sector’s foundation—are all intertwined with the operations of other sector and thematic groups (STGs); so closer collaboration within the ADB Finance Sector Office is necessary to achieve the FSDG’s goal. This requires that the quality of finance sector operations be enhanced by strengthening the peer review process up to project implementation. Project teams will share their experiences on issues and challenges to help improve future projects. Consultation with the sector directors will also be enhanced.

5. Promoting Effective Collaboration with Knowledge Partnerships

Collaboration and knowledge services will be a critical function of the Finance Sector Group. The group will utilize four approaches to developing and disseminating knowledge, given its importance in delivering integrated solutions: technical assistance (TA), cross-sector and thematic collaboration, knowledge management, and partnerships.

6. Building Skills and Resources in Emerging Areas

Financial support, knowledge sharing, and capacity building for DMCs are all vital to ADB finance sector activities. Operations in new areas such as SDG, climate, and disaster risk financing all require knowledge and expertise about underlying financial schemes and innovative financial products. ADB will acquire this through hiring staff, internal and external training programs, and STG collaboration.

The directional guide implementation period is from 2022 to 2030, which aligns with the effectivity of Strategy 2030. The directional guide is designed to be a living document, to be updated as required to remain relevant to the dynamic context of the Asia and Pacific region.
Read the Finance Sector Directional Guide in full here:


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On the cover: Financing sustainable growth. Finance sector development cuts across ADB’s seven operational priorities and addresses emerging themes such as climate change and digitalization.

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