New Development Bank
Policy on Loans without Sovereign Guarantee to National Financial Intermediaries

Owner: Operations Division

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Change Log

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Abbreviations

EURIBOR	European inter-bank offered rate
LIBOR	London inter-bank offered rate
NDB	New Development Bank
NFIs	National Financial Intermediaries

New Development Bank: Policy on Loans without Sovereign Guarantee to National Financial Intermediaries

A. Introduction

1. This policy allows loans without sovereign guarantee to national financial intermediaries (NFIs) wholly or majority-owned by the national governments.

B. Eligible Clients

2. NDB and the member country identify appropriate NFIs—wholly or majority-owned by the national government—to engage with the New Development Bank (NDB).

C. Lending Currency and their Terms

a. Currency of loans

3. NDB provides US dollar denominated loans linked to 6 month London inter-bank offered rate (LIBOR). Euro denominated loans, when available, will be linked to 6-month European inter-bank offered rate (EURIBOR). The lending rates are reset every 6 months on interest payment date. NDB endeavors to provide loans denominated in the national currencies of its member countries. National-currency loans will be linked to a suitable national market-benchmark interest rate or NDB's cost of raising national-currency resources. The lending rates for national currency loans are reset in accordance with agreed principles and client requirements.[1]

b. Pricing of loans

4. NDB provides loans at floating interest rates linked to an appropriate bench-mark rate plus a spread determined at the time of loan approval. The spread on a loan to a NFI will have two components: (i) NDB's cost spread[2]; and (ii) a risk premium reflecting the incremental risk involved for NDB in providing such loan to the NFI. The risk premium will be determined at the time of loan appraisal. In determining the risk premium, NDB will take into consideration, among others, the share of capital held by the national government in the NFI and the existence of legal or financial arrangements that amount to an implicit guarantee.

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[1] The treasury department will advise Management and the BOD periodically (six monthly) about (i) the spreads and the commitment fee to be charged for national currency loans, and (ii) the applicable rebates and surcharges.

[2] NDB cost spread will be the same as the spreads applicable to sovereign guaranteed loans for foreign currency and national currency loans, respectively.

c. Loan conversion (currency and interest rate) options

5. Loans to NFIs can avail of conversion options.[3]

d. Other terms and conditions

6. Loans to NFIs will have the same maturity premium, front-end fee, commitment charges, rebates and surcharges, terms of relending, and prepayment and cancellation rules applicable to loans with sovereign guarantee.

e. Loan term and repayment schedule

7. Repayment period will depend on the nature and objectives of projects financed, and financial intermediary's cash flows and ability to manage long-term interest rate and foreign exchange risks. As in the case of loans with sovereign guarantee, the average repayment maturity could be up to 19 years including a grace period of up to 5 years.[4]

8. NDB offers flexible repayment options ranging from straight-line repayment schedule, annuity method, tailor-made option to align repayment with project's cash-flow pattern, equated debt service installments, bullet repayments, and repayments linked to actual disbursements.

D. Assessment

9. NDB and the member government identify a suitable NFI to channel NDB resources for infrastructure and sustainable development projects. The assessment criteria include: (i) relevant macroeconomic environment, and regulatory framework and the soundness of financial system in the borrowing country; (ii) legal and institutional suitability of the institution to engage with NDB; (iii) financial soundness of the national institution reflected in capital adequacy, asset quality, liquidity, and profitability; (iv) management policies and standards of corporate and financial governance, including, among other things, compliance with prudential regulations for exposure limits, and transparent financial disclosure policies and practices; (v) internal procedures for credit assessment, risk management and project appraisal and approval; (vi) capabilities to assess the social and environmental impact of subprojects and monitor the compliance in managing the

[3] This facility will not be available till NDB makes adequate arrangements to hedge currency/interest rate conversion risk (see paragraph 9 of NDB's *Policy on Loans with Sovereign Guarantee*).

[4] Average repayment maturity is calculated as the average of the number of years until each principal repayment amount is due, weighted by the principal repayment amounts. Average maturity = (Sum of weighted repayments/Sum of total repayment).

impacts in accordance with national standards; (vii) soundness of business strategy, plans, and track record in the sectors targeted by NDB; (viii) autonomy in pricing decisions; and (ix) anti-money laundering mechanisms.

10. Loans to NFIs will be processed using the procedure used to process project loans with sovereign guarantee with appropriate modifications.[5]

E. Use of funds

11. NDB provides funds to the selected NFIs to achieve clearly defined strategic priorities of the member government and NDB. The size of loan depends on the member's needs, NDB's exposure limits, and financial assessment of the borrowing institution. The selected NFI on-lends NDB loans as sub-loans to finance one or more projects (back-to-back loan or two-step loan), all termed as subprojects. The facility could be made available for a drawdown period of up to 5 years. The maximum and minimum size of sub-loan under loan is established during appraisal.

12. NDB and the NFI agree, during the appraisal of the loan, on the criteria for selection of subprojects and also on a "free limit" below which the NFI approves sub-loans meeting the selection criteria without taking prior approval from NDB and submits only the necessary information. The free limit is determined taking into account appraisal capacity and processes in the NFI, prior experience in administering similar loans, sub-loan size, and environment and social risks.

13. Sub-loans above the free limit need prior NDB approval to receive NDB funding.

14. NDB and the NFI may agree on an "appraisal floor" above which NDB will appraise the sub-project either independently or jointly before the same is presented by the NFI to its Board for approval.

F. Procurement

15. Procurement under the facility will be in accordance with the principles of NDB's procurement policy. The NFI is required to make adequate arrangements for effective supervision of procurement under sub-projects. Arrangements for procurement management will be assessed and agreed during appraisal of the facility.

[5] Appropriate modifications will be adopted in the guidelines for processing loans to financial intermediaries indicated in "*Processing of Loans with Sovereign Guarantee: Policy*".

G. Environment and Social Framework

16. The NFI needs to have suitable system to manage the environment and social impact of activities financed by NDB funds to comply with principles of NDB's environment and social framework. Arrangements for managing environment and social impacts will be assessed and agreed during appraisal of the facility.

H. Monitoring

17. NDB and the NFI establish a system to (i) ensure NDB resources are used in accordance with the criteria indicated in the loan agreement; and (ii) monitor the quality of portfolio of projects financed by NFIs. NDB also (i) monitors the financial soundness, solvency, profitability, and regulatory compliance of the borrowing institution; and (ii) requires submission of audited financial statements that are prepared in accordance with acceptable standards and audited annually by independent auditors acceptable to NDB. NDB may suspend disbursements under the facility if the NFI is in breach of performance standards with respect to financial covenants, quality of sub-project portfolio, and corporate governance for a prolonged period of time.

I. Guidelines

18. NDB Management issues, from time to time, detailed staff guidelines to help staff prepare NDB assistance under different modalities.

J. Review of the Policy

19. NDB will pursue this policy during the first year of operation. Thereafter, as needed, NDB may review and modify the policy based on the experience gained in implementing the policy.