



OPERATIONS MANUAL BANK POLICIES (BP)

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These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.

MULTITRANCHE FINANCING FACILITY

A. Introduction

1. The multitranche financing facility (MFF) expands the range of financial instruments and modalities offered by the Asian Development Bank (ADB). It enables ADB to provide assistance programmatically by aligning the provision of financing with project readiness and the long-term needs of a client. The MFF facilitates long-term partnerships between ADB and its clients, and provides opportunities for constructive dialogue on physical investments as well as nonphysical (thematic and sector) interventions. The MFF also reduces some repetitive processing tasks associated with traditional financing modalities. The MFF provides critical mass, predictability, and continuity to clients.

2. The MFF contributes to ADB's development agenda of inclusive economic growth as set out in ADB's long-term strategic framework 2008–2020 (Strategy 2020).¹ It enables ADB to better respond to the needs of its clients by tailoring its assistance. The MFF also supports the creation and expansion of social and economic opportunities for the impoverished in Asia and the Pacific, and enables broader access to these opportunities.

B. Definitions

3. The term “facility” refers to the MFF.

4. The term “instrument” refers to the generic means of providing or facilitating financing—loans, guarantees, or grants.

5. The term “modality” involves the specific application of these instruments within a defined legal, policy, and operational structure—MFF, program loans, sector development programs, etc.

6. The term “tranche” may comprise a loan, grant, guarantee, or ADB-administered cofinancing. It may consist of a sector loan or financial intermediation loan, but will not include a program loan or a sector development program.

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.



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C. Policy²

7. An MFF is a financing modality made available by ADB to a client to support its medium- to long-term investment program or investment plan. The ADB Board of Directors approves a maximum amount for each MFF, as well as the specific terms and conditions under which financing will be provided. On the basis of the Board's approval, Management converts this facility amount through a series of tranches to finance eligible investments when the client requests financing.

D. Scope

8. An MFF can be used to provide financing in any of the sectors, services, industries, and thematic areas that are covered by ADB in a developing member country (DMC) and are considered priorities under the relevant country partnership strategy (CPS). It can be provided directly to a client that is a DMC or an entity guaranteed by a sovereign. The MFF can finance multiple projects under an investment program in a sector or in several sectors, or large stand-alone projects with substantial and related individual components with long-term implementation plans. The MFF can also finance slices of long-term contract packages in such investment programs or large stand-alone projects.

9. The amount approved for an MFF can be converted into loans, grants, guarantees, or cofinancing administered by ADB. The loans can be funded from ordinary capital resources (OCR) or Special Funds resources.³ Grants can be funded from Special Funds resources or any fund administered by ADB. Loans may include a financial intermediation loan or a sector loan, but not a program loan or a sector development program. Loans to financial intermediaries can be utilized for a range of projects consistent with ADB's policy on financial intermediation loans.⁴ Similarly, sector loans will be processed in compliance with the requirements of ADB's sector lending policies.⁵ Guarantees can be partial credit guarantees or political risk guarantees. Equity financing is not considered appropriate for MFFs at this stage. Each tranche will offer standard ADB financial terms and conditions, including variations on tenors, currency options, swaps, and fixed and variable repayment schedules.

10. Any loans or grants from the Asian Development Fund (ADF) will require the financing packages to be synchronized with the ADF availability cycle, and to take into account the possible changes resulting from the performance-based allocation exercise.

² ADB. 2008. *Mainstreaming the Multitranches Financing Facility*. Manila.

³ Loan, grants, and guarantees are subject to ADB's policies (OCR terms, Asian Development Fund framework, etc.).

⁴ ADB. 1987. *Review of ADB Policies on Credit Lines to Development Finance Institutions*. Manila; ADB. 2003. *Operations Manual*. Section D6: Financial Intermediation Loans. Manila (15 December).

⁵ ADB. 1984. *A Review of Sector Lending Operations*. Manila; ADB. 1980. *Sector Lending*. Manila; ADB. 2003. *Operations Manual*. Section D3: Sector Lending. Manila (29 October).

11. Financing terms and conditions can differ between tranches.⁶ Tranches can be provided in sequence or simultaneously, and some may overlap. The specific financing terms and repayment arrangements will depend on, among other things, (i) the financing needs of the client and the investment to be financed, (ii) the capital market conditions at the time, and (iii) ADB's financing policies at the date of signing of the related legal agreements. In determining the size of an MFF, and the number and size of individual tranches, factors to be considered will include the financing needs and readiness of the investments to be financed, the technical reasons for sequencing the activities, economic and administrative efficiency, and the absorptive and implementation capacity of the clients and other parties that may be involved.

12. Commitment charges or guarantee fees are not payable on the MFF amount. These are payable only on the financing amount committed in the legal agreement for the loan or guarantee that is signed between the client and ADB. The rules regarding commitment charges and guarantee fees, which are in effect when the legal agreements are signed for any tranche, will apply with respect to such a tranche.

13. If financing under an MFF is made available to an entity other than a sovereign, that tranche must be guaranteed by the sovereign.

E. MFF Constituents

1. Road Map

14. An MFF requires a road map (i.e., a sector strategy). Only investments consistent with the road map will be financed under the related MFF. The road map should define (i) the strategic directions for a sector, service, or industry; (ii) its importance to growth, poverty reduction, and inclusiveness (or the extent to which it is a binding constraint); and (iii) the list of success factors for better performance. The road map needs detailed assessments of physical and nonphysical investments. These assessments highlight the main investment and non-investment bottlenecks, risks, and mitigation measures. Such information then informs the strategic context, policy framework, and investment programs (the so-called enablers), as well as the interventions needed and their sequencing.

15. If an investment program encompasses several sectors, the road map should justify the multisector approach and include relevant information about each of the sectors that are proposed to be supported. The road map will take into account the strengths and risks identified in the sector assessments. For example, as with traditional

⁶ For example, the first tranche may be provided as a US dollar loan, repayable over 15 years, at a fixed rate of interest. The second tranche may be provided as a Japanese yen loan, repayable over 10 years, at a floating rate of interest, coupled with a third tranche in the form of a 10-year partial credit guarantee.



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sector loans, the assessments supporting the road map should consider the factors that affect sector performance and service delivery, including (i) the policy, institutional, legal, and regulatory frameworks; (ii) institutional capacity; (iii) recent trends in current and capital expenditures; (iv) the type and composition of the expenditures; (v) the roles of the public and private sectors; (vi) pricing policy; (vii) the sustainability of investments; and (viii) the possibility of resource allocation with the sector. The road map should also address social dimensions,⁷ environmental considerations, safeguards, and governance issues in sector management.

2. Strategic Context

16. An MFF needs a clear strategic context, which could be sourced from the CPS or elsewhere. The CPS is developed based on macroeconomic reviews, detailed sector diagnostics, and crosscutting thematic assessments. The CPS articulates the areas where ADB is to deliver financing and ideas. The MFF sets out a long-term partnership for the chosen sector(s) and thematic areas. The strategic context should include key quantitative and qualitative principles, as well as targets.

3. Policy Framework

17. An MFF requires a policy framework that goes beyond the relevant technical or operational aspects. It needs to summarize the strategic vision for the sector (the road map), and then the principles and targets for change. The policy framework should focus on the main challenges and operating conditions in the relevant sectors to ensure efficiency, cost recovery, sustainability, and competition. This information leads to reforms over the short, medium, and long term that help create the right environment for public and private investment. The changes or reforms should address financial, economic, commercial, legal, regulatory, and institutional matters. Where a policy framework is not available, or its content is considered unsatisfactory, other modalities—program lending, sector development programs, advisory mandates financed through technical assistance loans and/or grants, sector loans, or stand-alone projects—should be considered. The MFF finances physical and nonphysical investments. Although nonphysical investments can include policy changes, these should occur only within an existing policy platform.

4. Investment Program

18. An MFF requires a detailed investment program, specifying the physical and nonphysical investments, as well as the corresponding resources needed. Where there is no investment program, a large stand-alone project will still be eligible for financing

⁷ The key social dimensions supported by specific ADB policies or strategies include (i) participation; (ii) gender and development; (iii) social safeguards; and (iv) management of social risks, especially among vulnerable groups. ADB. 2007. *Operations Manual*. Section C3/BP: Incorporation of Social Dimensions into ADB Operations. Manila (25 April).

under an MFF, provided it has substantial and related individual components with a long-term implementation plan. In such cases, the MFF will require a detailed investment plan instead of an investment program.

19. An investment program is a set of projects and activities that are eligible for financing under an MFF over time. Individual investments within the investment program may be physical investments, such as civil works, equipment, or rolling stock; or nonphysical investments or activities, such as capacity development and advisory work.

20. The physical part of an investment program can be split into medium-term and long-term investments. A medium-term investment plan often breaks down the longer-term vision into more immediate priorities, in most cases covering periods of 7–12 years. An MFF generally finances a portion of medium-term plans. Nonphysical investments address thematic and institutional issues, such as capacity development, governance, gender, private sector development, environment, safeguards, and regional cooperation. Where possible, these nonphysical components should be financed through ADF and grant resources (in countries eligible for OCR and ADF financing and those eligible only for ADF financing), technical assistance grants, or by suitable cofinanciers.

5. Financing Plan

21. An MFF needs separate financing plans for the overall facility and for individual tranches. Where feasible, financing plans should specify the sources of finance, availability, period of financing, and amounts. They should distinguish among internally generated resources (e.g., by the executing agencies), national and local government budgets, domestic sponsors and financial institutions (banks and nonbanks, including capital markets), and international financiers (sponsors, banks, private equity, venture capital, capital market operators, export credit agencies, export–import banks, and international financing institutions). Cofinancing can be provided on a joint or parallel basis. Usually, ADB participates only in the international financier part of the financing plan.

6. Undertakings

22. To blend investment (physical) with thematic matters (nonphysical), MFFs require facility-level undertakings, including any representations and warranties where necessary, relating to principles and actions on sector, operational, thematic, financial, legal, institutional, policy, and other areas. Facility-level undertakings are reflected in the framework agreement, and capture basic principles and criteria under which financing will be made available by ADB. They will also cover ADB operating policies and procedures, as applicable. Facility-level undertakings are different from tranche-level covenants, which are project-specific and are described in the individual legal agreements.



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23. Undertakings are commitments by clients to take or maintain certain actions over the term of the MFF. For example, the client should (i) remain committed to the road map and the policy framework; (ii) maintain its investment program and implement the financing plan; (iii) notify ADB of any changes to the road map, policy framework, investment program, and financing plan; (iv) consult with ADB in a policy dialogue affecting any of these elements; (v) select investments for financing in accordance with the agreed-upon selection criteria; (vi) comply with ADB's relevant policies and procedures, including those on procurement, disbursement, safeguards, social dimensions, gender, governance, and anticorruption measures, in the preparation and implementation of investments; and (vii) implement risk-mitigation actions identified in the design and monitoring framework. Breach of undertakings will trigger ADB's right to hold back financing, and to suspend or terminate the MFF.

F. Decision-Making Filters

24. An MFF has two stages at which financing approvals are made. The first is when the Board approves an MFF. The second is when Management approves financing for an individual tranche. At each stage the decision is subject to certain filters relating to the relevant road map, strategic context, policy framework, investment program, financing plan, and undertakings. Details of the process that will be followed are set out in OM Section D14/OP.

Basis: This OM section is based on:

ADB. 2008. *Mainstreaming the Multitranche Financing Facility*. Manila.

This OM section is to be read with OM Section D14/OP.

Compliance: This OM section is subject to compliance review.

For inquiries: Questions on how to apply the MFF criteria can be directed to the Strategy and Policy Department.⁸

⁸ During 2008/2009, teams should also consider directing their inquiries on the MFF to Juan Miranda, Director General, Central and West Asia Department and Chin Choon Fong, Assistant General Counsel.



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MULTITRANCHE FINANCING FACILITY

A. Introduction

1. The multitranche financing facility (MFF) allows the Asian Development Bank (ADB) to offer financial resources to a client under a specific set of conditions, in a series of separate financing tranches (loans, grants, guarantees, or administered cofinancing) over a fixed period of time.

2. Unless modified in this OM and/or the related Board policy paper,¹ the preparation, processing, and implementation of projects under the individual tranches will be governed by applicable ADB policies and operational procedures, including compliance requirements, prevailing at that time. Specifically, all policies and operational procedures² with respect to loans (including sector loans and financial intermediation loans), grants, guarantees, cofinancing, eligibility of expenditures, disbursement, social dimensions, safeguards, procurement, use of consultants, and disclosure will apply.

3. In the case of the first tranche, all projects should have generally been identified, appraised, and ready for implementation when the MFF is submitted to the Board of Directors for approval; and in the case of second and subsequent tranches, by the time the President approves that tranche. Stand-alone projects, which have substantial and related individual components, should have been fully appraised in their entirety before the concerned MFF is submitted to the Board. In case of loans to financial intermediaries, the actual portfolio of projects under a tranche need not be fully identified or fully prepared at the time the tranche is approved by the President. The processing and implementation of tranches of this nature will be governed by ADB's policy on financial intermediation loans.³

B. Concept Clearance

4. At the concept clearance stage, a decision is taken on whether the MFF is the most appropriate modality. All MFF concept papers will be cleared in accordance with the prevailing ADB's business processes for stand-alone loan projects (currently they require the approval of the relevant vice-president).⁴ The format of the concept paper will be similar to that used for stand-alone loan projects, with variations to accommodate the additional information needs for MFFs—indicative road map, strategic context, policy framework, a matrix to justify the modality

¹ ADB. 2008. *Mainstreaming the Multitranche Financing Facility*. Manila.

² These include relevant policies, loan and grant regulations, operations manuals, staff instructions, project administration instructions, handbooks, and guidelines.

³ ADB. 1987. *Review of ADB Policies on Credit Lines to Development Finance Institutions*. Manila; ADB. 2003. *Operations Manual. Section D6: Financial Intermediation Loans*. Manila (15 December).

⁴ ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

vis-à-vis others, investment program or investment plan (separated into physical and nonphysical investments), financing plan, list of key issues and constraints, likely undertakings, and the proposed due diligence plan. Other information to be provided includes the indicative size of the MFF and that of the first periodic financing request (PFR). Ideally, the concept paper will be backed by a problem tree analysis to highlight key issues or root causes of problems and consequences. Appendix 1 illustrates the methodology involved in a problem tree analysis.

C. Due Diligence on the MFF and Individual Tranches

5. Due diligence will be conducted on each MFF as well as on its individual tranches. The overall facility will require work on the road map, strategic context, policy framework, investment program or investment plan, and financing plan. Due diligence will also cover (i) frameworks addressing environmental, involuntary resettlement, indigenous peoples safeguard issues, and social dimensions; (ii) the corresponding undertakings; (iii) any required policy refinements; (iv) action plans on given themes; (v) the planning and phasing of interventions; (vi) reporting requirements; and (vii) mechanisms for monitoring, evaluating, and measuring results.

6. Due diligence on the individual tranches will cover, as applicable, technical, commercial, legal, regulatory, financial, economic, and social dimensions; and managing social risks, governance, fiduciary oversight, capacity, procurement, anticorruption, implementation, safeguards, and other matters. The due diligence will help ADB determine whether the investments are ready for financing, i.e., whether they have been suitably prepared and can be implemented in compliance with the relevant ADB policies and agreed criteria.

D. Design and Monitoring Framework

7. A design and monitoring framework (DMF) must be prepared for the overall MFF, and for each tranche.⁵ During implementation, the DMF for the overall facility will capture the MFF impact and track the direction of the road map, policy framework, investment program or investment plan, financing plan, safeguards framework, inputs, outcomes, and results; as well as the nonphysical components, including crosscutting themes and regional cooperation. Principles to be measured under MFFs may include cost recovery, efficiency, competition, resource management, transparency, and sector development. Review mission reports will update this information.

8. The tranches will be monitored in the same way as stand-alone projects. A DMF will track inputs, outcomes, and results. Review mission reports will cover the design, commercial and operational matters, status of policy actions, undertakings, covenants, compliance with ADB policies and procedures (including safeguard requirements), capacity development actions, procurement, fiduciary oversight, anticorruption measures, and governance. Noncompliance may trigger decisions by Management leading to termination or suspension of the MFF, rejection of the PFRs, or suspension or cancellation of the related tranche.

⁵ ADB. 2007. *Guidelines for Preparing a Design and Monitoring Framework*. Manila (Section III.G.6).

E. Capacity Development

9. Given the substantial capacity constraints in most sectors of developing member countries (DMCs), as well as in the institutions overseeing them, regional departments should incorporate financing for capacity development into individual MFF tranches. Exceptions to this should be clearly justified in the report and recommendation of the President (RRP) for that MFF. Assessment of capacity constraints, at the level of both MFF and individual tranches, should follow ADB's capacity development medium-term framework and action plan.⁶ Depending on the capacity constraints identified, capacity development should be included in the overall design and could focus on three parts: (i) assistance with the implementation of a project approved under the first tranche; (ii) due diligence advisory services to help prepare investments or projects for the second and subsequent tranches; and (iii) special advisory services to work on policy framework refinements, planning assistance, institutional change management, monitoring and evaluation of the overall investment program, results measurement, and reporting to the authorities and ADB. The first of these capacity development components can be structured to include technical and nontechnical expertise, such as project design and supervision, safeguards, governance, procurement, and financial management. The second component can cover standard ADB project finance requirements, including technical, financial, commercial, legal, regulatory, social, safeguard, operational, governance, implementation, and disbursement requirements. The third component can focus on planning; policy reformulations; results measurement; and overall MFF monitoring, evaluating, and reporting.

10. Such capacity development arrangements require proper due diligence followed by sound structuring. Overall "mandates" should be formulated and divided among advisory teams—each managed by a team leader and comprising long-term advisors and short-term experts. The budgets should not be viewed as fixed, i.e., they should contain a contingency to enable clients to engage additional experts as required at short notice. If necessary, shortages of experts and budget deficiencies can be corrected in subsequent tranches.

F. Framework Financing Agreement

11. A framework financing agreement (FFA) records the basic understandings between the client and ADB with respect to an MFF. It describes the principal features of the investment program or the project, as well as the principles by which ADB may provide financing and the client may avail of such financing. However, the FFA does not constitute a legal obligation on the part of ADB to provide financing, nor is the client obliged to request or accept any financing. The legal rights and obligations of the parties with respect to each tranche arise only out of the legal agreements in respect of such tranche. Consequently, at its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by a client, cancel the

⁶ ADB. 2007. *Integrating Capacity Development into Country Programs and Operations: Medium-Term Framework and Action Plan*. Manila.

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uncommitted portion of the MFF, and withdraw the client's right to request any uncommitted tranche under the MFF. Similarly, the client has the right not to request any financing or to cancel any uncommitted portion of the MFF.

12. The FFA will provide information on the road map, including the specific sector investment plans, strategic context, policy framework, investment program or investment plan, the financing plan, and the undertakings. The FFA should also provide information on cofinancing, whether as part of the MFF or otherwise, whether joint or parallel, and indicate the extent to which it may be administered by ADB.

13. The FFA will record

- (i) whether the tranches will be provided as loans, grants, guarantees, or cofinancing, or as a combination of these instruments;
- (ii) whether tranches will be funded out of ordinary capital resources, Special Funds resources, or both; in the event of any financing from the Asian Development Fund, the FFA will emphasize the indicative nature of the funding commitment against the availability of funds;
- (iii) the projected tranche schedule, if possible, indicating the most probable frequency and size of the tranches;
- (iv) the understandings with respect to whether and how the repayment of amounts due and payable to ADB under any tranche will be guaranteed (where applicable);
- (v) facility-level undertakings by the client, including any representations and warranties, if necessary, by the clients relating to sector issues, fiduciary oversight, financial management plans, capacity and institutional development, implementation arrangements, disbursements, safeguards, governance, anticorruption, policy reforms and dialogue, among others;
- (vi) criteria for selecting specific components or projects for financing and the implementation framework; the criteria may include design and operational characteristics, financial and economic viability (including least cost choices), and compliance with ADB's social dimensions, safeguard policies, and the social and environmental legislation and regulations of the client; and
- (vii) the social and safeguard frameworks agreed between the client and ADB and incorporated by reference.



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14. An FFA will have the following mandatory schedules: Schedule 1: MFF constituents—road map, strategic context, policy framework, investment program or investment plan, and financing plan; Schedule 2: design and monitoring framework; Schedule 3: implementation framework; Schedule 4: selection criteria; Schedule 5: social dimensions and safeguard requirements; and Schedule 6: undertakings.

15. The FFA template is attached as Appendix 2.

16. To minimize duplication with the FFA, the RRP for the MFF will provide an appropriate summary of the key features of the road map, strategic context, policy framework, and the investment program or investment plan.

G. Periodic Financing Request

17. A periodic financing request (PFR) is a formal request to ADB by the client to finance a tranche under an MFF. The investments must have been technically prepared, financially appraised, and processed in compliance with the applicable social and safeguard frameworks for them to be included in the PFR.

18. Each PFR will specify the tranche amount, the conversion instruments, the financing terms, cost estimates and financing plan, implementation arrangements, advance contracting, and the amount and purpose of retroactive financing, if any, requested. The PFR should also specify the actions necessary (and those already accomplished) to make the project ready for financing.

19. The client should submit to ADB, along with the PFR, the summaries of feasibility studies and engineering designs (as necessary), terms of reference for the engagement of advisors, results of any advance actions, and relevant economic and financial assessments (where necessary).

20. The PFR will refer to and attach the procurement plan and the appropriate safeguard documents, including safeguard plans required under the safeguard frameworks prepared for the MFF.

21. The PFR will confirm that the general understandings under the FFA remain true. It will describe the client's compliance with the undertakings, as well as any representations and warranties included in the FFA.

22. If a guarantee is envisaged pursuant to the FFA, the PFR will include a confirmation that a guarantee, in form and substance acceptable to ADB, will be issued to secure repayment of all amounts that may become due to ADB under that tranche.

23. Depending on the capacity constraints identified, the first PFR could include a request to finance capacity development in three areas: (i) assistance with the implementation of the



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investment program, as well as the activities under the first tranche (covering safeguards, governance, and technical and other areas); (ii) assistance with the preparation of subsequent physical and nonphysical investments for inclusion under the second PFR; and (iii) special advisory services to work on policy framework refinements, planning assistance, institutional change management, monitoring and evaluation of the investment program, results measurement, and reporting to the authorities and ADB. If necessary, all or part of such assistance may be replicated under subsequent PFRs and tranches. This approach will help blend physical and nonphysical actions and ensure the provision of expert support for capacity development (at all levels); due diligence; and help with evaluations, monitoring and reporting for results. If this approach is not adopted, the project team concerned will have to provide suitable justifications in the relevant proposals (i.e., RRP for the first tranche or PFR report for the second and subsequent tranches).

24. A DMF will be prepared for the investments included in a PFR to show how they relate to the overall DMF for the MFF. For second and subsequent PFRs, the DMFs will be attached to the PFR report.

25. For second and subsequent PFRs, the project team will prepare and submit to Management a PFR report describing the specific part of the investment program supported under the PFR, the broad and specific strategic objectives that will be met, and the nature and characteristics of the projects identified in the PFR. The PFR report will also provide information on cost estimates and financing plans, and the implementation plans. It will describe the project executing and implementation agencies (including their capacity, financial management capabilities, evaluation, and monitoring and reporting systems and procedures) and the disbursement plans. The PFR report will discuss the benefits, impacts, assumptions, and risks. The PFR report will also (i) cover implementation achievements and disbursement rates under the previous tranches, (ii) assess the compliance with the legal agreement and the undertakings in the FFA, and (iii) update the status of the road map, investment program, and the policy framework.

26. The PFR template is attached as Appendix 3.

27. A facility administration manual will be agreed upon with the client no later than the effective date of the first tranche. The manual will fully articulate the implementation arrangements for the entire MFF.

H. Availability Period

28. Financing under an MFF can be extended and disbursements made only within the availability period agreed between the client and ADB. The availability period refers to the maximum utilization period and sets the last date on which any disbursement may be made. The availability period should be no longer than 10 years from the date on which the MFF is



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approved by the Board. Extensions of the availability period beyond 10 years will generally not be considered, but if so considered will be subject to approval by the Board.

I. Safeguard Compliance

29. For purposes of complying with safeguard policies, the following shall apply:

- (i) Appropriate safeguard frameworks must be prepared for the MFF as a whole, agreed between the client and ADB, and incorporated by reference in the FFA. Safeguard frameworks provide guidance on social and environmental screening, impact assessments, development of management plans, public consultation and information disclosure, monitoring and reporting, and institutional arrangements (including budget and capacity development) to be followed for components and projects that are prepared after Board approval of the MFF, including criteria of component or project selection. The regional departments will assist the client to prepare the safeguard frameworks and will send them to the Environment and Social Safeguards Division of the Regional and Sustainable Development Department (RSES) for review.
- (ii) The MFF as a whole will not be categorized under any of the safeguard policies. Categorization will be made at the level of individual tranches. The regional departments will be responsible for proposing the categorization of all tranches in consultation with RSES. Final categorization will be approved by the chief compliance officer.
- (iii) In case of the first tranche, the regional departments will review safeguard documents and send all documents to RSES for further review. In case of second and subsequent tranches, the regional departments will (i) work with the client to ensure that the safeguard requirements are met in conformity with the safeguard frameworks, and (ii) forward a summary of the safeguard documents to RSES for review of the classification proposed by the regional departments.
- (iv) A safeguard policy compliance memorandum (SPCM) will be issued by RSES before the management review meeting (MRM) for the first tranche. For the subsequent tranches, SPCMs will be issued before the Management considers the related PFR report. However, where the sector loan or financial intermediation loan modality has been adopted, SPCMs will be issued for the second and subsequent tranches only where the projects under such a tranche have been classified as category A in respect of any of ADB's safeguard policies.
- (v) Where significant cumulative and induced environmental impacts from the entire MFF are considered probable, a sector or regional assessment will be prepared and submitted to the Board together with other MFF documents for Board consideration.



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- (vi) Disclosure rules under ADB's *Environment Policy* (2002), *Involuntary Resettlement Policy* (1995), *Policy on Indigenous Peoples* (1998), and *Public Communications Policy* (2005) will apply to the MFF and each individual tranche.

J. Approvals

30. All MFF proposals will be submitted to the Board for approval, following standard ADB rules and procedures for sovereign project processing. A detailed workflow is set out in Appendix 4.

31. When the FFA negotiations are held at ADB headquarters in Manila, the negotiated FFA will be signed by an authorized representative of the client and the concerned director general (or an authorized representative). When negotiations are held in the field, an authorized representative of the client and the relevant country director (or an authorized representative) will sign it. The FFA and first PFR will be attached to the RRP for an MFF. The FFA should be signed before the Board considers a proposed MFF. If this is not achievable due to the operation of any local law or government policy or to any other exceptional circumstance, the FFA may be signed after Board approval, but any material change must be resubmitted to the Board for approval. In such cases, the RRP should set out the circumstances which prevented the FFA from being signed. The legal agreement for the first tranche must be executed within 12 months of Board approval of the MFF; otherwise the validity of the MFF will lapse. MFF extensions will require Board approval.

32. Management will convert the facility amount approved by the Board into financing for individual tranches. Tranches will be processed by the regional departments and approved by the President. MRMs and staff review committee meetings are required for all MFFs. MRMs for the second and subsequent tranches will be held at the discretion of the concerned vice-president. In deciding whether to approve the second and subsequent tranches, Management will consider, among other things, compliance with the MFF undertakings, as well as the status of the road map, investment program, and policy considerations.

33. If advance contracting is requested by a client, it must be set out in the PFR. Management can approve the advance contracting in accordance with the *Project Administration Instructions* section on preparatory work and procurement supervision.⁷ If retroactive financing is also requested by a client for any or all tranches, the RRP must discuss the nature and extent of retroactive financing requested. Management may allow this on a case-by-case basis when the request is included in any PFR and described in the related PFR report.

⁷ ADB. 2007. *Project Administration Instructions*. PAI 3.01: Preparatory Work and Procurement Supervision. Manila (February).

K. Reporting and Evaluation

34. A monthly report listing all PFRs received in the previous month will be prepared and submitted to the Board by the relevant regional department in the first half of each month. The report shall identify the relevant MFF and the PFR number, specify the nature and amount of financing requested, and provide references or links to the safeguard documents submitted with respect to such PFRs.

35. A consolidated annual report will be prepared for all approved MFFs in each country and submitted to the Board by the relevant regional department in January each year. The annual reports will provide (i) statistical information on the MFF, including progress made on each of the physical and nonphysical components; (ii) risks and issues, and actions being taken to mitigate the risks and resolve the issues; (iii) DMF updates; (iv) status of compliance with undertakings; (v) any changes in circumstance or material facts relating to the investment program or investment plan; and (vi) information on cofinancing administered. The regional departments can draw upon the review mission reports while updating the annual reports.

36. A project performance monitoring system will be established for the entire MFF, as well as for its individual tranches. The performance reports in respect of individual tranches will be compiled for the purpose of preparing the facility-level performance report that will form part of the annual report to the Board. In addition to individual project completion reports for each tranche, a facility completion report will be prepared for the overall MFF. Post evaluation reviews may be undertaken of the overall MFF or any of its tranches.

L. Change in Scope

37. Any change in scope will be handled in compliance with *Project Administration Instructions* section on change in project scope or implementation arrangements.⁸ Changes requiring Board consideration will include a substantial and material change in the strategic direction of the road map, a change in the policy framework that negatively affects the viability or sustainability of the investment program or investment plan, a change in the sectors covered by the investment program, or a substantial and material change in the type of the investments contemplated under the investment program or investment plan.

38. Any amount under an individual tranche that is canceled will replenish the overall facility by an equivalent amount. The relevant regional department will immediately notify the Controller's Department of any decision to cancel a portion of the MFF.

⁸ ADB. 2008. *Project Administration Instructions*. PAI 5.04: Change in Project Scope or Implementation Arrangements. Manila (June).



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M. Limited Supplementary Financing

39. Limited supplementary financing of purely price or financing arrangement changes may be made available in respect of prior ADB interventions in the same sector, provided (i) the likely requirement for such supplementary financing was included in the assessments leading to the preparation of the MFF road map with respect to the quality of existing and future assets, and (ii) in addition to MFF processing requirements, the appraisal procedures for this type of supplementary financing set forth in ADB's policy on supplementary financing⁹ must also be satisfied.

N. Country Cost-Sharing Ceiling

40. ADB financing under the MFF shall not exceed the applicable country cost-sharing ceiling for the relevant client at the time the MFF is approved. Individual tranches provided under an MFF may finance any portion of the cost of the financed transactions, provided such financed portion is less than 100% of such cost, and provided, further, that when the availability period ends, the sum of ADB's financing under the MFF is within the country cost-sharing ceiling applied at the time the MFF was approved.

O. Disclosure

41. In compliance with ADB's *Public Communications Policy* (2005), the following documents will be made publicly available: (i) FFA upon approval of the MFF by the Board; (ii) legal agreements upon signing; (iii) project information document for each tranche upon processing of such tranche; (iv) the annual report to the Board upon circulation to the Board; (v) facility completion report upon circulation to the Board; (vi) safeguard frameworks for the MFF before appraisal; (vii) the summary environmental impact assessment or summary initial environmental examination for the tranche, where applicable, 120 days before the approval of the tranche;¹⁰ and (viii) the draft resettlement plan and draft indigenous peoples development plan before appraisal, in case of the first tranche, and before Management review of the PFR, in case of the second or subsequent tranche. ADB shall also make the PFRs available to interested parties on request.

P. Effectiveness

42. The mainstreamed MFF policy is effective from 11 July 2008. It will apply to new MFF proposals and to subsequent tranches under MFFs approved prior to 11 July 2008.

⁹ ADB. 2005. *A Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs*. Manila.

¹⁰ The memo to the President for approval of the tranche must mention compliance with the 120-day disclosure rule, where applicable.

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Basis: This OM section is based on OM Section D14/BP and the documents cited therein.

This OM section is to be read with OM Section D14/BP.

Compliance: This OM section is subject to compliance review.

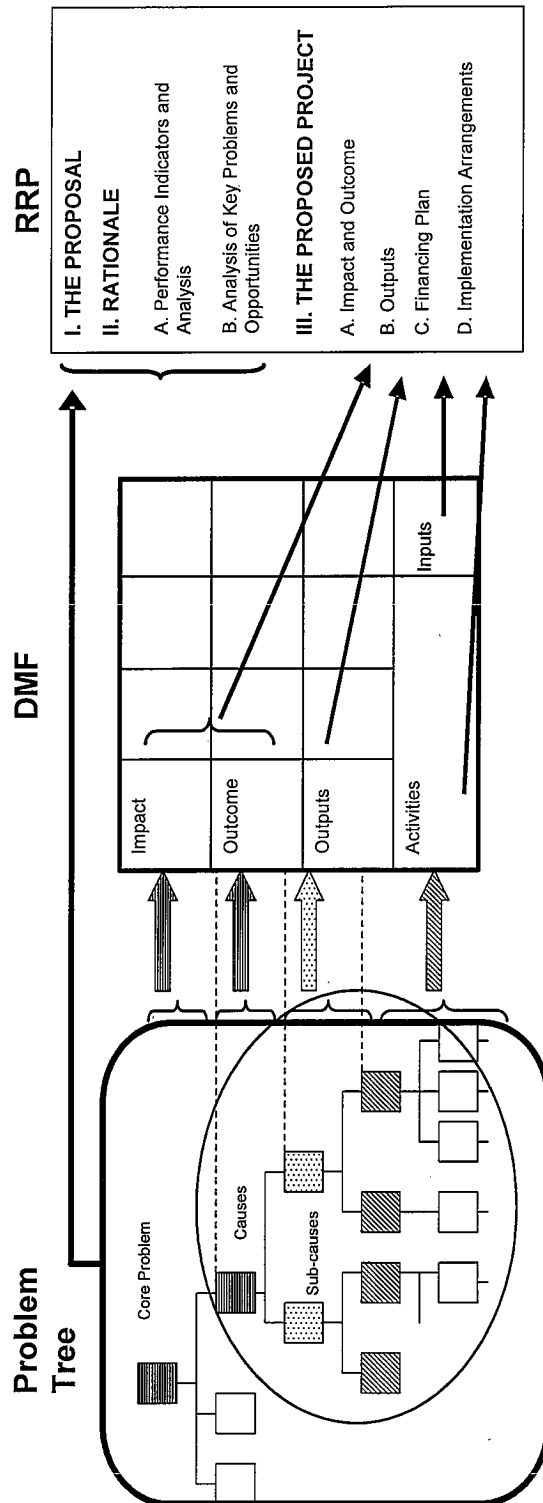
For inquiries: Questions on how to apply the MFF criteria can be directed to the Strategy and Policy Department.¹¹

¹¹ During 2008/2009, teams should also consider directing their inquiries on the MFF to Juan Miranda, Director General, Central and West Asia Department and Chin Choon Fong, Assistant General Counsel.

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PROBLEM TREE ANALYSIS



DMF = design and monitoring framework, RRP = report and recommendation of the President
Source: Asian Development Bank.

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(TEMPLATE)

FRAMEWORK FINANCING AGREEMENT

This model is intended to serve as basis for drafting a framework financing agreement (FFA). Discussion and negotiations on the FFA will be conducted in close consultation and with the assistance of the Office of the General Counsel (OGC). The draft FFA as discussed with the client will be attached to the appraisal memorandum of understanding (MOU) or aide-memoire, and the usual caveats regarding the requirement for approval by higher authorities of both parties will apply.



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FRAMEWORK FINANCING AGREEMENT [✍]

(_____)

Parties

This Framework Financing Agreement (“FFA”) dated [_____] is between [state name of proposed borrower] (“X”), [state name of proposed guarantor] (“Y”), and Asian Development Bank (“ADB”).

MFF Investment Program¹

“X” is committed to and will implement the [name of the sector development plan, stand-alone project, etc.], which is an integral part of the Investment Program. Both the [name of the sector development plan, stand-alone project, etc.] and the Investment Program are described in Schedule 1 hereto. [✍]

The total cost of the [name of the sector development plan, stand-alone project, etc.] over the period [20__] to [20__] is expected to be [_____] equivalent. The total cost of the Investment Program, over the period [20__] to [20__] is expected to be [_____] equivalent.]

Multitranche Financing Facility

The Multitranche Financing Facility (the Facility) is intended to finance [components] [projects], under the Investment Program, provided that such [components] [projects] comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

These may include:

(List types of components, projects.)

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by “X”, cancel the uncommitted portion of the Facility, and withdraw “X’s” right to request any financing tranche under the

¹ If there is no investment program in the case of large stand-alone projects, this may be replaced by an investment plan.

[✍] **DRAFTING NOTES:**

Context. Indicate the objective, components. Briefly specify the linkage to poverty reduction, and briefly describe any policy relevant dialogue.



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Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of “X” to request any financing. “X” has the right not to request any financing under the Facility. “X” also has the right at any time to cancel any uncommitted portion of the Facility.

X [, Y,] and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The financing plan for the [name of the sector development plan, stand-alone project, etc.] is summarized below.

Financing Source	Total (\$)	Share (%) of Total
“X” Asian Development Bank [Other sources of financing administered by ADB] [Other sources of financing – from official development agencies, commercial sources and the private sector]		
Sub Total (Name of the Sector Development Plan, Stand-alone Project)		
“X” [Other sources of financing – from official development agencies, internal resources, commercial sources and the private sector]		
Total (Investment Program)		



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Financing Terms

ADB will provide [loans] [guarantees] [grants] [administer cofinancing] to finance [components] [projects] under the Investment Program, as and when the latter are ready for financing, provided, "X" is in compliance with the understandings hereunder, and the [components] [projects] are in line with those same understandings. Each [loan] [grant] [guarantee] [administered cofinancing] will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

There is no maximum or minimum size for a tranche.

Commitment charges or guarantee fees are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is _____ (_____). It will be provided in individual tranches from [ADB's Ordinary Capital Resources/Special Funds Resources] [in the following manner:

DRAFTING NOTES:

Amount. Indicate the source of financing. In a footnote, indicate the applicable loan regulations to each loan as follows:

For OCR: Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

For SFR: Provisions of the Special Operations Loan Regulations applicable to Loans Made by ADB from its Special Funds Resources, dated 1 January 2006, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Special Funds Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).



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Loans
Grants:
Guarantees:
Cofinancing:]

Availability Period

The last date on which any disbursement under any tranche may be made will be _____. The last financing tranche is expected to be executed no later than _____.

Terms and Conditions

“X” will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

The Executing Agency will be [name the Executing Agency-_____]. The Executing Agency will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.

Periodic Financing Requests

“X” may request, and ADB may agree, to provide [loans] [grants] [guarantees] [or administer cofinancing] under the Facility to finance the Investment Program [and its related [components] [projects] upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by “X” [and confirmed by the “Y”]. “X” will make available to [the Project Executing Agency], [and through the Project Executing Agency] to _____], the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

DRAFTING NOTES:

Terms and Conditions. Identify where the proceeds of the ADB financing will go to. For sector projects, each tranche will be used to finance a range of subprojects. The project eligibility and approval criteria, or project components in the case of a large stand alone project, are set out in Schedule 4 to this Agreement.

Periodic Financing Request. Consider having the PFR acknowledged by the intermediary and final recipient of the proceeds. Describe the onlending arrangements, if any.



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Each individual tranche will be for an amount of no less than _____ (\$ _____), or its equivalent. ADB will review the PFR[s] and, if found satisfactory, prepare the related legal agreements.

The [components] [projects] for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. ADB and “X” will agree on a Facility Administration Manual and a schedule to initiate these activities, as soon as possible after the date of this Agreement, but prior to the effective date of the legal agreements for the first tranche.

Until notice is otherwise given by “X,” [_____] will be “X’s” authorized representative for purposes of executing PFRs. [Likewise, until notice is otherwise given by “Y,” [_____] will be “Y’s” authorized representative for purposes of executing PFRs.]

**General
Implementation
Framework**

The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.

Procedures

Tranches to be provided under the Facility will be subject to following procedures and undertakings:

- (a) “X” will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (b) “X” will have submitted a PFR in the format agreed with ADB.
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.



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-
- PFR information** The PFR will substantially be in the form attached hereto, and will contain the following details:
- (i) Loan, grant, guarantee, or cofinancing amount;
 - (ii) Description of [components] [projects] to be financed;
 - (iii) Cost estimates and financing plan;
 - (iv) Implementation arrangements specific to the [components] [projects] ;
 - (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;
 - (vi) Confirmation of compliance with the provisions under previous [Loan] [Guarantee] Agreement(s) [and Project Agreement(s)], as appropriate; and
 - (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.
- Safeguards** Attached as Schedule 5 are references to the Safeguard Frameworks that will be complied with during the implementation of the Facility.
- ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the [components] [projects] financed under such financing tranche.
- Procurement** All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time).
- Consulting Services** All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time).
- Advance contracting;
Retroactive financing** Under each tranche, ADB may, subject to its policies and procedures, allow on request (a) advance contracting of [_____] and (b) retroactive financing of eligible expenditures for [_____] up to [20%] of proposed individual loan,

DRAFTING NOTES:

Safeguards. ADB's safeguard policies include (i) Involuntary Resettlement Policy, 1995, (ii) Policy on Indigenous People, 1998, and (iii) Environment Policy, 2002.



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incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. The [client] acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.

- Disbursements** Disbursements will be made in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).
- Monitoring, Evaluation, and Reporting Arrangements** [Describe the arrangements at and between all relevant levels within "X", between the "X" and "Y", and between, on one hand, the "X" and "Y" and, on the other, ADB.] Schedule 2 hereto sets as the Design and Monitoring Framework for the Facility, against which the implementation effectiveness will be evaluated
- Undertakings** Attached as Schedule 6 are the undertakings provided by "X" [and "Y" if necessary]
- Representations And Warranties** [if any]
- Guarantee** "Y" will provide a guarantee, in form and substance acceptable to ADB, as a condition precedent to the effectiveness of any tranche requested by "X", and provided by ADB pursuant to the terms of this Agreement.

Name of "X"

ASIAN DEVELOPMENT BANK

By _____
Name of Authorized Representative

By _____
Name of Authorized Representative

Name of "Y"

By _____
Name of Authorized Representative

SCHEDULE 1

MFF CONSTITUENTS

A. Road Map

State the vision for the sector, and the objective of the project.

Outline the strategic directions being pursued and the rationale for sector investments (physical and nonphysical), or, in the case of a stand-alone operation, describe the project and its components, [or describe the corporate, business, and capital investment plans of the financial intermediary]. Describe the importance the investment has to the growth, poverty reduction and inclusiveness agenda.

Describe ADB's evaluation of the issues, constraints, challenges and opportunities and development impact of the program of investments for the sector, stand-alone project, or corporate, business, or capital investment plan, as well as the nature and strength of the broad approach to implementing and financing the program or a project thereof. Include detailed assessments of both physical and nonphysical investments. These should bring out the main investment and noninvestment bottlenecks, risks and mitigation measures and the strengths for achieving the vision and development, and, in the case of a stand-alone project, the basis, context, or need for the project. The analysis should also address social dimensions, environmental considerations, and issues of good governance in sector management.

Outline the types and sequencing of the priority investments in a sector and indicate whether they may be publicly, privately or public–privately financed; for a stand-alone project, describe

DRAFTING NOTES:

The transactions to be financed by an MFF are integral parts of the client's' development plan and sector strategy, business/corporate plan, or project concept, as appropriate. The implementation of the Investment Program is expected to contribute to the achievement of these strategies, plans, and concepts, which in all cases, the Counterparties must be committed to implementing.

This Schedule will describe the sector or stand-alone project, for which MFF financing is going to be made available.

The mission needs to highlight the type, estimated cost, selection, and sequencing of interventions in the program of investments for the sector, stand-alone project, or corporate/business/capital investment plan, and the options for delivering and financing such interventions. These interventions may include physical and nonphysical investments such as (a) capital assets; (b) operation and maintenance; (c) investments for ensuring economic viability, cost recovery and sustainability; (d) investments for improving the general governance and anti-corruption frameworks; (e) investments for improving financial management and fiduciary oversight arrangements; (f) investments for implementing the safeguards plans; (g) investments for capacitating key institutions or units to effectively and efficiently implement the Investment Program, deliver services; and (h) investments for making the regulatory and legal framework responsive to the needs of the sector.



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the project and its components; for a credit line, describe the corporate, business, and capital investment plans of the financial intermediary.

If the investment program encompasses several sectors, there must be one development road map that justifies the multisector approach, and also road maps for each of the supported sectors.

B. Strategic Context

Strategic context could be sourced from the country partnership strategy (CPS) or elsewhere. The CPS is developed on the basis of macroeconomic reviews, detailed sector diagnostics and crosscutting theme assessments. The CPS articulates the areas where ADB is to deliver financing and ideas. The MFF sets out a long-term partnership for the chosen sector or sectors and thematic areas. The strategic context should include key quantitative and qualitative principles, and targets.

C. Policy Framework

A policy framework must cover more than technical or operational aspects. It should summarize the strategic vision for the sector and then the challenges, principles, and targets for change. This information should lead to recommendations for a set of reform actions over the short, medium and long term. The aim of a policy framework is the creation of the right environment for investment, public and private alike. The recommended reform actions should deal with financial, economic, commercial, legal, regulatory and institutional matters. The main principles and outcomes should include cost recovery, optimum use of resources, sustainability, efficiency, competition, and transparency. If the investment program encompasses several sectors, there should be established policy frameworks for each sector.

D. Investment Program

Describe the investment program. The investment program can be medium- or long- term in nature. It articulates a series of actions required or prescribed under the road map. The investment program covers long-term investment packages addressing physical requirements, and enabling environment and thematic needs—capacity, public policy reforms, governance, legal matters, social dimensions and safeguard issues, procurement systems, fiduciary oversight, anticorruption, and others. The investment program should relate to broad and specific sector objectives and be linked to poverty reduction.

In the case of a large stand-alone project without an investment program—describe the investment plan.

E. Financing Plan

Provide additional information, e.g., on cofinancing, in respect of the Financing Plan described in the FFA.

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SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

DRAFTING NOTES:

The DMF should contain statements, targets, and indicators at the impact, outcome, and (to the extent possible) output levels for the entire Facility, as well as policy reform and capacity building activities that are required to enhance the viability and sustainability of sector investments. Facility baseline data and impact area socio-economic data would be useful additions for monitoring and evaluation of the facility implementation process and performance.



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SCHEDULE 3

IMPLEMENTATION FRAMEWORK[Ⓟ]

[Ⓟ] DRAFTING NOTES:

Describe the implementation arrangements.

SCHEDULE 4

**SELECTION CRITERIA AND APPROVAL PROCESS FOR
[COMPONENTS] [PROJECTS]**

Selection Criteria

NOTE: Include a definition of the criteria for selecting [components], [projects], for financing. The criteria may include design and operational characteristics, financial and economic viability criteria (including least cost choices). In addition, components or projects must be in compliance with the requirements of social and environmental legislation and regulations of the client and must conform to ADB's safeguard policies. Reference may be made to the understandings set out in Schedule 5.

Approval Procedures



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SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. “X” [and “Y”] will ensure that all the requirements prescribed in this Schedule, and the following safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the [components] [projects] under the Facility.

- (i) environmental assessment and review framework, dated _____,
- (ii) resettlement framework dated _____,
- (iii) indigenous peoples development framework dated _____, and
- (iv) environmental management plan, resettlement plan, and indigenous peoples development plan [dated _____] for the first tranche.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB’s safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the MFF on the environment, involuntary resettlement, and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components, projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; and (iv) the institutional arrangements (including budget and capacity requirements) and the client’s and ADB’s responsibilities and authorities for the preparation, review and clearance of safeguard documents.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed by _____ and updated to ensure relevance and consistency with applicable country legal frameworks and ADB’s safeguard policies, as amended from time to time.

4. In all cases, for each new PFR preparation, the client will review ongoing projects to check on the status of compliance with the safeguard plans and frameworks, and submit the review reports to ADB, together with other required safeguard documents relevant to the [components] [projects] included in the tranche being processes. In any case if major noncompliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

SCHEDULE 6

Undertakings

“X” undertake as follows:

- e.g. Sector Specific Undertakings
 - a. Tariffs
 - b. Operation and Maintenance
 - c. Public–Private Initiatives
 - d. Budget resources

Fiduciary Oversight

Financial Management Plans

Governance and AntiCorruption

Capacity and Institutional Development

Policy Framework and Dialogue

DRAFTING NOTES:

Undertakings. These could include specific actions in the Investment Program and the DMF that need to be committed; compliance with the Implementation Framework [i.e., Schedule 3], Selection Criteria [i.e., Schedule 4], Social Protection and Safeguard Issues [i.e., Schedule 5].

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**(Template)
PERIODIC FINANCING REQUEST**

Date:

To: Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila

ATTENTION: Director General, [Department]
Fax No. [_____]

Sir/Madam:

RE: [Insert name of Investment Program]: Periodic Financing Request # [____]

Please refer to the Framework Financing Agreement for [_____] dated _____ between Asian Development Bank (ADB) and _____. Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, the [insert name of "X"] ("X") requests ADB to process this PFR for a tranche, in the form of a [loan] [grant] [guarantee] [administration of cofinancing] from its [Insert resource type]. The proposed financing amounts, terms, conditions, and financing plan are specified in Attachment A hereto. Descriptions of the [components] [projects] for which financing is hereby requested are set out in Attachments [____] to [____] hereto.

(If sovereign or other guarantees of repayment are to be provided). ["Y"] ("Y") hereby confirms that a guarantee in form and substance acceptable to ADB will be executed and issued, and confirmed as the valid and binding obligation of "Y", as a condition precedent to the requested tranche becoming effective.

[For second and subsequent PFRs "X" hereby certifies that it is in full compliance with the understanding set out in the FFA].

By: [name of "X"]
[Signature of Authorized Representative]
[Full Name and Title of Authorized Representative]

By: [name of "Y"]
[Signature of Authorized Representative]
Full Name and Title of Authorized Representative

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Attachment

Project Description The [[components] [projects] proposed for financing under the requested PFR is/are:

[Describe the [components] [projects]

[Additional details are in Annex (--).]

Cost Estimates and Financing Plan The total cost of the [components] [projects] is estimated at _____, [inclusive of taxes, duties, and interest and other charges on the loan during construction]. The detailed cost estimates and financing plan are in Annex (--).

(\$ million)

Project/ component	Counterparty	ADB	Cofinanciers	
A				
B				
Total				

[Loan]¹³ Amount and Terms

The request is for a [loan] of \$[___] million from the [insert funding source] of the Asian Development Bank (ADB) provided under ADB's London interbank offered rate (LIBOR)-based lending facility, with a (--) year term including a grace period of (--) years, an interest rate determined in accordance with ADB's LIBOR-based lending facility, and such other terms and conditions as agreed in the FFA, and further supplemented under the [Loan and Project, or other] Agreements.¹⁴

Period of Loan/Guarantee Utilization

The [components] [projects] are expected to be completed by (_____). No disbursements from the [loan] [grant] account will be requested or made later than (-----).

Advance Contracting

Advance contracting is requested for [_____]

Retroactive Financing

Retroactive financing is requested for [the eligible expenditures], not exceeding the amount of (_____), incurred before loan effectiveness, but not earlier than 12 months before the signing of the legal agreement.

¹³ Amend as appropriate for the conversion instrument, e.g., grant, guarantee, or administration of any cofinancing.

¹⁴ This should be suitably revised based if the source of funding is ADF or if the loan is in local currency.



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Implementation Arrangements	The Executing Agency will be the (_____). [Describe detailed implementation arrangements in the context of the Facility Administration Manual.]
Procurement and Consulting Services	The procurement plan is attached as Annex (--).
Confirmation of Continuing Validity of and Adherence to Provisions of FFA, Previous Agreements, and the Design and Monitoring Framework	<p>“X” confirms that the understandings set out in the FFA [and provisions of previous [loan agreements] have been adhered, and remain true to date.</p> <p>A full report on compliance is attached as Annex (--).</p>
Readiness of the Project for Implementation	[Specify the actions necessary and already accomplished that make the [components] [projects] ready for financing.]
Safeguards	<p>For first PFR. Attach and refer to required safeguard documents.</p> <p>For second and subsequent PFRs. [Attach and refer to (i) report(s) on the status of compliance with ADB's safeguard requirements (environment, involuntary resettlement and indigenous peoples) for previous PFR(s), and (ii) required safeguard documents for the second and subsequent tranches.]</p>

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MULTITRANCHE FINANCING FACILITY APPROVAL PROCESS

Milestone		Responsible Persons	Actions
A. Processing a Multitranche Financing Facility and the first Periodic Financing Request¹			
1.	Concept Clearance	Vice-President (as per standard business processes)	Concept paper is prepared by the project team and submitted to the Vice-President for approval.
2.	Fact Finding	Project team	The project team conducts due diligence in respect of the MFF constituents and the first tranche. Draft safeguard frameworks for the facility are discussed and agreed. Drafts of the FFA, DMF and first PFR are also discussed with the client. The safeguard classifications of the project under first PFR are confirmed.
3.	Management Review Meeting	Vice-President	Draft RRP is circulated by the project team for interdepartmental review. SPCM is issued. Consideration of key issues and specific recommendations or guidance on content and structure is discussed at the MRM.
4.	Appraisal	Project team	Project team completes the due diligence process and updates draft FFA, DMFs, first PFR, and the RRP. Draft FFA and first PFR are attached to the appraisal MOU or aide-memoire.
5.	Staff Review Committee Meeting	Director general	Draft RRP, FFA, first PFR, and the legal agreements are circulated by the project team for interdepartmental review. At the SRC, Director general considers the updated draft of the RRP, FFA, first PFR, and

¹ If PFR 1 is accompanied by another PFR, the two will be processed together as provided herein.

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Milestone		Responsible Persons	Actions
			draft legal agreements, checks on all preconditions and status of the recommendations made at MRM, and then decides whether to seek authorization from Vice-President to hold negotiations of the FFA and legal agreements.
6.	Memo seeking authority from Vice-President to negotiate FFA and Legal Agreements, and execute the FFA	Vice-President	Memo is submitted to Vice-President through Director general.
7.	Negotiation of FFA, PFR, and the Legal Agreements Execution of FFA and PFR	Project team and OGC Director general or authorized representative (if negotiations in headquarters) Country director or authorized representative (if negotiations in the field)	FFA, first PFR, and other legal agreements are negotiated. ADB signs FFA; the client signs both the FFA and first PFR. In exceptional cases, FFA may be signed after Board approval. In these cases, the relevant RRP should discuss the circumstances which prevented FFA from being signed; any material change must be resubmitted to Board for approval.
8.	Submission of RRP, FFA, and PFR for Board consideration	President	Board of Directors considers the proposal.
9.	Approval of the Tranche, and execution of Legal Agreements	President	Memo is submitted to the President through Vice-President requesting approval of the tranche and the legal agreements.

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Milestone		Responsible Persons	Actions
			Legal agreements are signed by the President or the authorized representative within 12 months of Board's approval of MFF.
10.	Agreement on Facility Administration Manual	Project Team	The facility administration manual is agreed upon with the client no later than the effective date of the first tranche. The manual will fully articulate the implementation arrangements.
B. Project Execution and Processing of Subsequent Tranches			
1.	Project Execution	EA	Project team engages in dialogue with the client, and monitors and reviews execution of first tranche, preparation of subsequent tranches, and the proposed safeguard classifications. The project team works with the client and/or its advisors on the road map, policy framework, investment program, financing arrangements, status of safeguards framework, undertakings, etc. The client is advised on a regular basis to ensure consistency, completeness and adherence to ADB policies and procedures. DMFs are tracked and the reports prepared.
2.	Preparation of Subsequent Tranches	EA	
3.	Submission of PFR to ADB	Client and EA	Addressed to Director general
4.	Draft PFR Report to Management	Project Team	Includes description of proposed tranche; reports on ongoing tranche implementation and the status of compliance with the undertakings in the FFA and covenants of the earlier legal agreement(s); provides information on client's and/or EA's capacity; as well as governance and policy issues; recommends either approval or denial.

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Milestone		Responsible Persons	Actions
5.	Interdepartmental Review	COSO, CTL, OED, OGC, RSES, regional departments	To be completed in 5 working days. Project team addresses points raised, brings them to Management's attention, and submits revised PFR report to the Management.
6.	Management Review of PFR	Vice-President	Special meeting with Vice-President. Issues note (summary of points for guidance and decisions) is prepared. Vice-President may engage other teams across ADB as required. SPCM is issued before this stage (for sector loans and financial intermediary loans, SPCM will be issued only for category A projects).
7.	Optional Management Review Meeting at Management's Discretion	Vice-President	Vice-President may convene an MRM if considered appropriate. The issues note should guide decision-making process.
8.	Legal Agreements	OGC	OGC drafts legal agreements and circulates to COSO, CTL, OED, RSES, and regional departments. Each agreement will carry the title of MFF and indicate the number of the financing tranche.
9.	Management's Decision	Vice-President	If positive, Vice-President authorizes negotiation of legal agreements.
10.	Communication of Management's Decision and Invitation to Negotiate	Director general	Decision is communicated to the client.
11.	Negotiation of Documents	Project team and OGC	Standard procedures. Changes, if any, to PFR, are minuted or alternatively, the client signs the amended PFR.



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Milestone		Responsible Persons	Actions
12.	Submission of Documents to Management	President	Standard procedures
13.	Approval of Tranche and Execution of Legal Agreements	President	Standard procedures

ADB = Asian Development Bank, COSO = Central Operations Services Office, CTL = Controller's Department, DMF = design and monitoring framework, EA = executing agency, FFA = framework financing agreement, MFF = multitranche financing facility, MOU = memorandum of understanding, MRM = management review meeting, OED = Operations Evaluation Department, OGC = Office of the General Counsel, PFR = periodic financing request, RSES = Regional and Sustainable Development Department, Environment and Social Safeguards Division, SPCM = safeguard policy compliance memorandum, SRC = staff review committee.