



Policy Paper

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June 2008

## Mainstreaming the Multitranche Financing Facility

Asian Development Bank

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
DMC	–	developing member country
DMF	–	design and monitoring framework
EPC	–	engineering, procurement, and construction
FFA	–	framework financing agreement
MFF	–	multitranche financing facility
OCR	–	ordinary capital resources
PFR	–	periodic financing request
PRC	–	People's Republic of China
RRP	–	report and recommendation of the President

Note: In this report, "\$" refers to US dollars

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## I. PILOT FINANCING INSTRUMENTS AND MODALITIES

1. The purpose of this paper is to seek approval of the Board of Directors (the Board) to mainstream the multitranche financing facility.

2. In August 2005, the Board approved new financing instruments and modalities,<sup>1</sup> which included, amongst others, the multitranche financing facility (MFF). An MFF establishes a partnership between ADB and a client for the purposes of working in a sector or sectors. It has features of a standby letter of credit, and can be used to extend debt finance and advice for (a) large stand-alone projects with interrelated components, (b) investment programs with interconnected components in a sector or sectors, and (c) credit lines for small and medium-sized enterprises and local governments.

3. The Board approved the MFF on a pilot basis to test its suitability for ADB and its clients. The pilot period runs from 1 September 2005 to 31 August 2008.

4. The first report on the use of MFF and other facilities, submitted to the Board in March 2007, indicated that demand for the MFF is strong, particularly from ADB's largest borrowers.<sup>2</sup> Smaller borrowers, particularly DMCs financed exclusively through the Asian Development Fund (ADF), are also keen on the MFF. However, they have to take into account certain constraints, including the short ADF availability cycle, the small amounts of funding for each country, and the changes that might come from the annual performance-based allocation exercise.

5. Although the Board is generally supportive of the MFF, some members have expressed reservations about the growing size of the portfolio during the pilot phase. While favoring its programmatic features and flexibility, some Board members also want more clarity and consistency on the criteria for the MFF and its application. Most concerns relate to the strategic context for the MFFs, the quality of the road maps and policy frameworks, the nature of the investment and financing plans, warranties and representations, and the application of ADB policies and procedures. The Board wants precise decision-making criteria, better reporting arrangements, and its own oversight. It has also requested better benchmarking of the sector problems or solutions that the MFF and other ADB financial instruments target.

## II. THE MULTITRANCHE FINANCING FACILITY

### A. Rationale

6. The MFF expands the range of ADB financial instruments and modalities.<sup>3</sup> In particular, it enables ADB to invest programmatically, thereby reducing over-reliance on stand-alone project approaches that often involve repetitive and cumbersome business processes. The MFF cuts the financial and nonfinancial costs of doing business, and opens the way for more structured cofinancing. It provides critical mass, predictability, and continuity to clients.

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<sup>1</sup> ADB. 2005. *Pilot Financing Instruments and Modalities*. Manila.

<sup>2</sup> ADB. 2007. *Progress Report on the Innovation and Efficiency Initiative September 2005–December 2006*. Manila.

<sup>3</sup> An "instrument" covers the generic means of providing or facilitating financing – loans, guarantees, or grants. A "modality" involves the specific application of these instruments within a defined legal, policy, and operational structure - MFF, program loans, etc.

7. ADB clients require mostly long-term and large investments, especially in infrastructure and utilities. ADB's traditional financing instruments—loans, equity, guarantees, and technical assistance grants—continue to be relevant, but the way the financing is channeled to clients can be improved. For example, the current financing practice generates a balance sheet commitment for the client and ADB. If the amount is large, this leads to sizable commitment fees for the client and tighter lending headroom for ADB. A programmatic approach mitigates these problems, but requires a partnership framework to be in place. Such a partnership cannot be established if clients are punished financially for entering into long-term arrangements. In contrast, the MFF provides financing only as and when needed. A collateral benefit is that the MFF allows ADB and clients to spend more time on implementation and less on processing. The MFF does not cut any corners on policies, procedures, and best practice on themes and transaction structures. A comparison of the MFF with other modalities is provided in Appendix 1.

## **B. Description**

8. The MFF is like a standby letter of credit. The Board approves a maximum amount for each MFF under specific terms and conditions. Based on the Board's approval, Management then converts this facility amount into a series of loans, guarantees, or credit lines<sup>4</sup> as and when the investments are ready and the client requests financing. All DMCs can use the MFF in any sector. Individual financings under an MFF can be in any eligible currency, and can come from ordinary capital resources (OCR) and/or the ADF. Terms and conditions may differ among tranches. Currency and interest rate conversion options available for OCR loans will remain in place. Guarantees can be partial credit guarantees or political risk guarantees.

9. An important feature of the MFF is that the overall facility amount is not recorded as a formal, legally binding commitment on the part of ADB or its clients; only the converted loan, guarantee, or portion of a credit line is. The MFF provides ADB and its clients multiple entry points for policy dialogue. Policies can be refined, governance risks corrected, and safeguard frameworks adjusted to take into account specific issues. Lessons from the implementation of one tranche can be applied to another. Indeed, earlier tranches can be designed to facilitate the implementation of subsequent tranches. For example, the first tranche can finance advisors for (i) implementation of the first project, including technical design, civil works supervision, safeguard support, procurement, monitoring, evaluation, administration, and reporting; (ii) due diligence for the preparation of subsequent projects; and (iii) capacity development (e.g., planning, policy work, training), monitoring, measurement of results, and reporting.

10. The MFF has its own pilot phase operational instructions.<sup>5</sup> MFFs differ substantially from other modalities offered by ADB such as policy-based program lending, sector development program loans, and sector loans.

11. Program lending helps with reforms, including the creation of a policy framework, but does not finance investments. MFFs require a policy framework up front and do finance investments. Although policy dialogue is possible with MFFs, this is not the same as developing a framework from scratch. Program lending does not always require a sector strategy, although one would be desirable. The MFF always needs one.

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<sup>4</sup> Also referred to as financial intermediation loans.

<sup>5</sup> ADB. 2006. *Compendium of Staff Instructions*. Staff Instructions on the Use of the Multitranche Financing Facility (MFF). Manila. Referred to hereafter as the "staff instructions".

12. Sector development program loans combine policy reforms with financing for generally smaller projects. A sector loan provides financing for a series of repetitive small investment projects spread over a short period (on average 5 years). Major policy reforms normally are not handled through a sector loan. The subprojects financed by a sector loan are generally “anticipated” or profiled in advance, based on a study of sample subprojects. Like sector loans, MFF finances slices of investment programs, but each tranche is usually substantial, clearly identified, and evaluated at the outset.

13. The baseline conditions for MFF processing and approval in the pilot phase are:

- (i) policy framework,
- (ii) sector road map,
- (iii) investment and financing plans, and
- (iv) warranties and representations.

14. Up-front assessments (due diligence) are needed for each of these conditions. Risks identified during due diligence define the transaction modality (MFF, program loan, sector loan, or sector development program loan) and action plans. The MFF requires negotiated warranties and representations to blend investment (physical) and thematic (nonphysical) matters.

15. MFFs require a framework financing agreement (FFA). This document establishes the partnership principles and the conditions under which ADB will consider financing individual tranches of an MFF.

16. A client can prepare investments to be financed under an MFF with or without direct assistance from ADB. A key criterion is compliance with ADB’s standard policies and procedures, including those on procurement; governance and anticorruption; safeguards; and legal, regulatory, technical, commercial, and social dimensions. Safeguard policies are complied with in two ways: (i) the facility as a whole follows a “safeguard framework”, in the same way that sector loans do; and (ii) the individual tranches follow a “safeguard plan”, except for the first tranche, which in some instances has followed a framework approach. The 120-day advance disclosure rule under ADB’s *Public Communications Policy* (2005) remains in place for all environmentally sensitive projects. The MFF and its periodic financing requests (PFRs) can be rejected, postponed, or terminated if conditions described in the FFA and legal agreements are not met.

### **C. Demand**

17. As of 30 April 2008, 19 MFFs had been approved with total facility amounts of \$10.30 billion. Two were processed in 2005, eight in 2006, seven in 2007, and two in 2008. The average size of the MFFs is \$542 million, and the average availability period is 7–8 years. MFFs on average finance about 23% of an investment program (Table 1, Appendix 2). About \$2.14 billion in 23 loans from 16 MFFs have been declared effective. Contracts totaling \$671.71 million have been awarded under nine MFFs, and \$221.18 million has been disbursed (Table 2, Appendix 2). Eight approved loans under seven MFFs are not yet effective. Some countries prefer to have a substantial number of contract packages ready for awarding before drawing down financing from an MFF.

18. Most of the MFFs have been approved for India and Pakistan. Azerbaijan, Bangladesh, the People’s Republic of China (PRC), and Viet Nam are also clients. Afghanistan, Armenia,

Georgia, Indonesia, Philippines, Sri Lanka, Tajikistan, and Uzbekistan have also expressed interest in the MFF.

19. The MFF has been used mainly to finance infrastructure and utilities (transport, irrigation infrastructure, electricity transmission, and selected urban services). These sectors usually require large and long-term investments. They also account for the bulk of ADB's business volume. Given the demand-driven nature of the MFF, this type of sector concentration is to be expected. However, the MFF can be used in any sector. Thus far, MFFs have been converted only into loans, including a financial intermediation loan; none has been converted into guarantees. All resulting financing has been made exclusively on a recourse basis (sovereign backed). The terms and conditions for each loan have also been traditional. OCR loans were extended at variable interest rates with principal repayments every 6 months; ADF loans were provided at the standard interest charge with similar principal repayment schedules. Only two MFFs have been used to finance stand-alone projects (in PRC and Viet Nam). The majority finance investment programs. One MFF for Pakistan has Management approval for a second tranche. One MFF for India has Management approval for four tranches, while another has Management approval for two tranches. The only MFF to PRC has Management approval for both the projected tranches. No MFF has been completed or canceled, although one in Pakistan was frozen pending resolution of a resettlement complaint. This situation paved the way for an agreement on the way safeguards are to be handled in the long term. A stand-alone project might not have given ADB the chance to negotiate such changes.

### III. LESSONS

20. Although no MFF or individual tranche has been completed, several lessons related to its use have been identified.

#### A. Instrument Choice

21. The MFFs have financed only debt. Although equity was not envisaged, guarantees were. The choice of conversion instrument is a function of staff and client familiarity. Further, DMCs that are eligible only for ADF financing need to avail themselves of ADF grants under the MFF. If this were possible, ADB would be able to meet the financing needs of many more DMCs. Similarly, formulating the first tranche as a sector loan—the approach taken in some cases—can be expanded so that any tranche can be formulated as a sector loan. In view of the positive experiences during the pilot phase, and provided that all requirements of ADB's sector lending policies<sup>6</sup> are complied with (in particular, undertaking proper capacity assessment and development), such expansion is considered feasible and desirable.

#### B. Cofinancing

22. Cofinancing has been significant but not always well reported. The MFFs cofinance on average 23% of investment programs. In the first set of tranches, ADB provided a large share of the financing. This may change in subsequent tranches. Since the MFF addresses the issue of commitment fees and off-balance-sheet contingent liabilities on account of ADB financing, borrowers with robust balance sheets will be better placed to secure financing from other

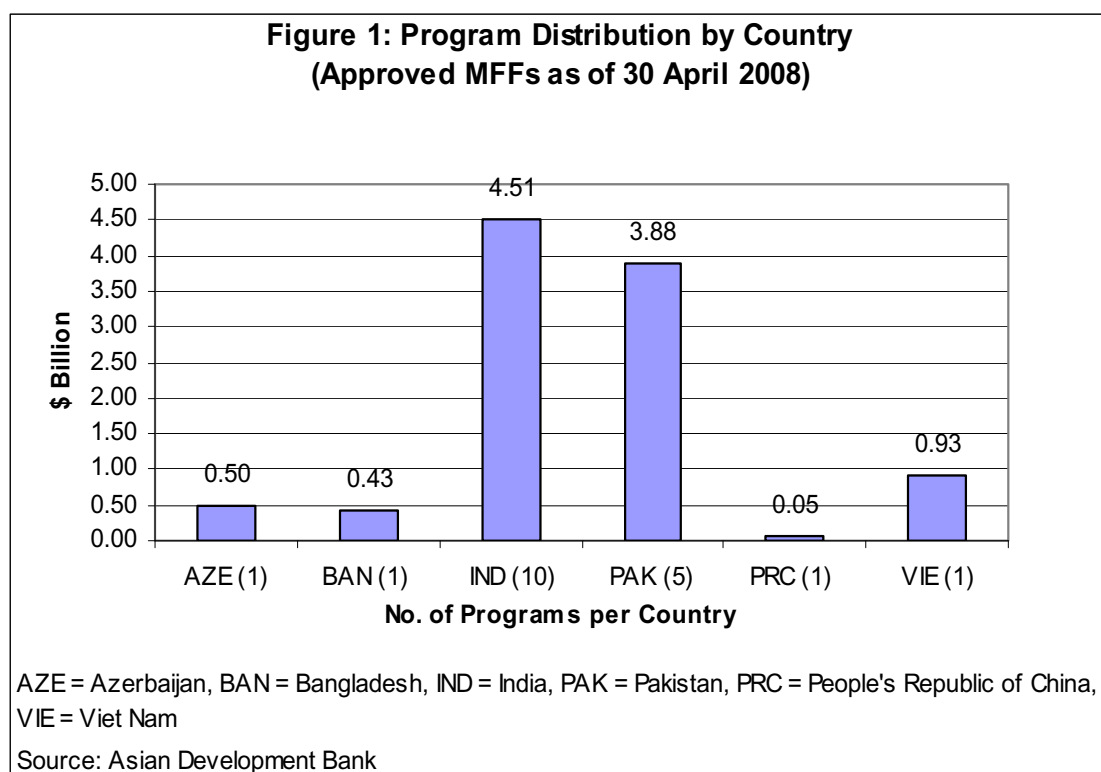
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<sup>6</sup> ADB. 1984. *A Review of Sector Lending Operations*. Manila; and ADB. 1980. *Sector Lending*. Manila.

sources. While joint and/or parallel cofinancing are possible, the latter seems to have been the most common arrangement, although the MFF reports do not always capture this information.

### C. Geographic Spread

23. The two largest MFF users (by number of investment programs and overall facility amounts) are India and Pakistan. Figure 1 shows that, of the 19 approved MFFs, 10 are for India (totaling \$4.51 billion) and 5 are for Pakistan (\$3.88 billion). MFFs have also been approved for Azerbaijan (\$500 million), Bangladesh (\$430 million), PRC (\$50 million), and Viet Nam (\$930.7 million). Afghanistan, Indonesia, and Philippines are likely to become clients in 2008.



#### 1. India

24. India prefers to work with MFFs when it comes to project finance, mainly because of the facility's flexibility and programmatic features. It also likes the savings on commitment fees. India has started to link disbursements to project readiness, and the MFF fits this requirement.

### Multitranche Financing Facility for the Rural Roads Sector II Investment Program in India

This MFF targets economic growth in rural communities in Assam, Orissa, and West Bengal through the construction and/or rehabilitation of all-weather roads to give people better access to markets and social services. The total cost of the investment program is \$2.1 billion. ADB made available a maximum facility amount of \$750.0 million.

Advance action was allowed with the first MFF financing request and, in accordance with the new policy on eligibility of cost sharing and expenditures, retroactive financing was permitted for contracts awarded as early as 12 months before loan signing. The size of the financing requests was based on the contracts ready to be awarded.

This MFF was approved in December 2005. The entire amount of the first loan under the facility has been contracted out and \$118.02 million—or close to 65.57% of the loan amount—has been disbursed.

25. Some of the early MFF interventions in India illustrate the significance and costs of capacity weaknesses. The first tranche under the MFF for the Uttaranchal power sector,<sup>7</sup> signed 11 months after Board approval, became effective 12 months later. The first two contracts were not awarded until 8.5 months after effectiveness. Weak internal approval processes by the client and capacity gaps in the executing agency slowed the awarding of contracts. The second tranche loan under the MFF for the Madhya Pradesh power sector<sup>8</sup> also highlighted capacity weaknesses. Although the loan was signed and became effective quickly, the contracts were awarded only 9 months after loan effectiveness. Capacity weakness delayed project readiness and bidding document preparation.

## 2. Pakistan

26. In Pakistan, the MFF is the modality of choice and the key to partnership with ADB in priority sectors. The MFF has allowed serious policy discussions in some sectors, as well as new perspectives on safeguards and governance. It has also given ADB and its clients greater continuity of staff and more predictability regarding the availability of finance and advice.

27. Pakistan's programmatic approach to business is evident in the road sector. The first MFF was approved in 2005 for \$770 million for a national highway investment program.<sup>9</sup> That program is part of a bigger logistics initiative, and an area where ADB continued to work in 2007 through the MFF for the National Trade Corridor. In the first MFF, ADB was at its best with regards to safeguard compliance. The MFF was put on hold because of a resettlement issue, giving ADB and its client time to define short- and longer-term correction measures. The MFF increased client awareness of the issue, without straining the relationship with ADB. One of the client's first responses was to establish a special team to address safeguards (following policies and procedures similar to those of ADB). The second action was to get the Ministry of Communications to pay fair compensation to the affected people. The National Planning Commission followed with an advisory mandate to establish a national resettlement policy for

<sup>7</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to India for the Uttaranchal Power Sector Investment Program*. Manila.

<sup>8</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to India for the Madhya Pradesh Power Sector Investment Program*. Manila.

<sup>9</sup> ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to the Islamic Republic of Pakistan for the National Highway Development Sector Investment Program*. Manila.

the country. While such dialogue and actions might have occurred anyway, the MFF facilitated the process.

28. ADB subsequently approved four more MFFs for Pakistan for (i) irrigation,<sup>10</sup> (ii) electricity transmission,<sup>11</sup> (iii) renewable energy,<sup>12</sup> and (iv) an investment program linked to the National Trade Corridor.<sup>13</sup> The first two of these MFFs are performing well in terms of investment readiness, contract awards, and disbursements. The first tranche under the renewable energy MFF, which covers operations in two provinces, took a long time to become effective. One province was ready with projects almost from the start, but the other was not. As a result, the second province held back the first tranche and the entire investment program. The lessons derived from this MFF are that approaches based on multiple clients and multiple agencies are not necessarily conducive to fast implementation, and due diligence work should have focused more on capacity issues.

29. Pakistan wants to increase its use of MFFs. It is especially pleased with the financing predictability, lower investment processing time, and cost savings. It also likes the greater responsibility placed on its agencies, and the multiple entry points for discussions and help during implementation.

### 3. People's Republic of China

30. Although the PRC recognizes the benefits of the MFF, its internal review and clearance processes are more compatible with stand-alone projects. The PRC watches closely executing agency investment proposals, including project readiness and contract awards. This makes the commitment fee savings (a by-product of the MFF) less relevant. In addition, there is a client perception that once an investment program is approved, an agency can draw money from the MFF without formal internal clearance processes. The PRC limits its annual borrowing from ADB, and is also looking into whether to change the nature of its portfolio with ADB. The rationale for a long-term partnership in various sectors will become clearer following the implementation of the recently approved country partnership strategy (CPS).

31. The PRC included one transaction under the MFF—two small hydropower plants on the Gansu–Heihe River cascade<sup>14</sup>—that could have been processed as two separate project loans. These plants were fully appraised up front, which accelerated loan effectiveness, contract awards, and disbursements. The first hydropower plant received a loan of \$22 million. Within five months of effectiveness, the entire amount was contracted, and \$15.9 million (72.4%) had been disbursed.

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<sup>10</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranchise Financing Facility to the Islamic Republic of Pakistan for the Punjab Irrigated Agriculture Investment Program*. Manila.

<sup>11</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranchise Financing Facility to the Islamic Republic of Pakistan for the Power Transmission Enhancement Investment Program*. Manila.

<sup>12</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranchise Financing Facility to the Islamic Republic of Pakistan for the Renewable Energy Sector Development Investment Program*. Manila.

<sup>13</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranchise Financing Facility to the Islamic Republic of Pakistan for the National Trade Corridor Highway Investment Program*. Manila.

<sup>14</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranchise Financing Facility to the People's Republic of China for the Gansu Heihe Rural Hydropower Development Investment Program*. Manila.

#### 4. Bangladesh

32. An MFF was processed for a railway sector investment program in Bangladesh.<sup>15</sup> The facility was designed “as a strategic integration of sector policy reforms, institutional development, and investments.” Specifically, it made reforms a condition for receiving investment financing. The first loan for \$100 million was approved, but subsequent tranches will be contingent on reforms, including the reorganization of the railway company. Bangladesh also received an ADF loan for \$30 million. Contracts totaling about \$8.4 million have been awarded from the OCR loan, and \$5.2 million from the ADF loan (Table 2, Appendix 2).

33. This was the first time an MFF was used for what might have been better financed through a program loan (to set up the reform framework) or a sector development program loan (to set up a policy framework alongside the physical investments).

#### 5. Viet Nam

34. The Mong Duong 1 Thermal Power Project in Viet Nam,<sup>16</sup> approved on 21 September 2007, employs an unusual but innovative MFF design. This is a large stand-alone project valued at more than \$1 billion. The MFF has two tranches. The first (for about \$28 million) will finance land acquisition, project design, and other preparatory work over two years. The second tranche (for about \$900 million) will finance an engineering, procurement, and construction (EPC) contract. The client expects to request the second tranche about 18 months after site acquisition, which is when the EPC contract will be ready for award. Although the second tranche will be large, the client wanted finance predictability, especially when entering into an EPC contract. An important feature is that the entire project—not just the first component—was appraised and prepared before Board approval.

#### 6. Azerbaijan

35. Azerbaijan’s first MFF was approved on 28 September 2007 for the equivalent of \$500 million to finance investments in roads.<sup>17</sup> An OCR loan for \$190 million and an ADF loan for \$10 million were signed on 15 January 2008. Advance design and procurement were allowed, and contracts are ready to be awarded. Azerbaijan produced a road map and policy framework for the highway sector. It defined an investment program for the medium term, with financing from ADB, World Bank, and the European Bank for Reconstruction and Development, as well as the national budget. A feeder road network is also planned, likely financed almost entirely from the national budget. The objective of the investment program is to improve connectivity across the country and with neighbors.

36. Azerbaijan has wanted to do more business with ADB, but the stand-alone project approach has not worked for the country. While Azerbaijan accepts ADB policy and procedures, it was looking for greater flexibility in the way financing is channeled. It has been looking for a partnership rather than for ad hoc interventions. All past transactions approved by ADB have taken years to become effective. The MFF has given both parties a practical platform from which to engage in investment and thematic areas.

<sup>15</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to the People’s Republic of Bangladesh for the Railway Sector Investment Program*. Manila.

<sup>16</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to the Socialist Republic of Viet Nam for the Mong Duong 1 Thermal Power Project*. Manila.

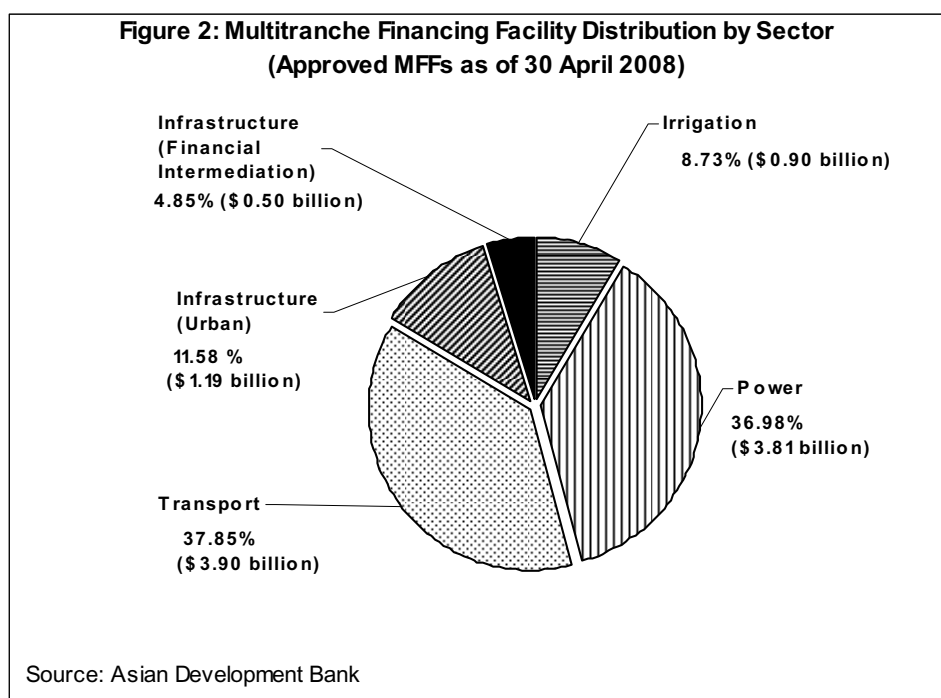
<sup>17</sup> ADB. 2007. *Report and Recommendation of the President to the Board of Directors on a Proposed Multitranche Financing Facility to Azerbaijan for the Road Network Development Program*. Manila.

## D. Security Packages

37. All MFFs have been made to the public sector (backed by a sovereign guarantee). MFFs have not been extended to private sector or state-owned companies without sovereign guarantees.

## E. Sectors

38. Of the 19 MFFs approved by 30 April 2008, six are in the transport sector (\$3.90 billion in ADB financing), seven in the power sector (\$3.81 billion), four in the urban sector (\$1.19 billion), one in irrigation infrastructure (\$900 million), and one in financial intermediation (\$500 million). Three of the power sector MFFs covered more than one subsector; and the four in the urban sector were multisector, covering water supply, sanitation, sewerage, drainage, waste management, and urban transport in more than one urban area. The financial intermediation MFF enabled a new financial intermediary to provide term financing for public-private partnership projects, demonstrating a strong demand beyond that of financing of small and medium enterprises. Figure 2 shows the distribution of approved MFFs by sector. "Infrastructure (urban)" covers the subsectors: water, wastewater, waste management, and urban transport. Social services have not yet been funded through MFFs.



## F. Crosscutting Themes

39. Inadequate due diligence on capacity has led to poor agency selection in some cases, as well as the mitigation measures proposed. To address these difficulties, most of the first tranche loans have provided financing to engage advisors to help with (i) execution of the first project or batch of subprojects; (ii) due diligence for the subsequent projects; and (iii) institutional change, including planning, monitoring, results measuring, evaluations, and reporting. MFFs can correct initial due diligence gaps if implementation teams review the theme regularly.

40. The participation of the private sector in projects is a strong feature of the MFF. Although some MFFs prioritized this theme more than others, most involved the outsourcing of civil works and maintenance, private–public partnerships, and reforms. The principles of efficiency, sustainability, and cost recovery were embedded in a majority of the MFFs, especially in the urban, energy, and transport sectors. More efforts are required in this area, particularly on private–public partnerships.

41. Governance has also generally been well covered. The MFF requires a policy framework, and most have had one. Reforms create the conditions for investment and other themes (e.g., private sector participation). Fiduciary oversight, anticorruption, financial management, and procurement arrangements have been addressed at two levels: (i) in the MFF through the FFA; and (ii) in each loan, following the current practice for stand-alone operations. The new governance approach approved recently by ADB calls for country and sector risk assessments, which are to be undertaken mainly when the CPS is prepared. Several operational departments have advanced this work, especially in countries with existing CPSs.

42. Gender has been part of the MFF program where applicable. It is addressed through standard assessments during the CPS and MFF-related sector reviews. Gender also is featured in the due diligence plans for individual loans. Like others, this theme is handled through the FFAs and later tracked during MFF implementation.

43. Safeguards have been covered in the overall MFF and in the individual tranches. Due diligence for the MFF results in safeguard frameworks, which parties agree to comply with in the FFA. Due diligence for individual tranches results in safeguard plans, which parties agree to comply with in the legal agreements.

44. Although not a crosscutting theme, regional cooperation issues is also addressed in some MFFs, such as the one for the Pakistan National Trade Corridor. This theme will become increasingly important.

## **G. Processing Criteria**

45. During the pilot phase, the MFF had four preconditions: road map, policy framework, investment program, and financing plan. It also had clear provisions for warranties and representations, and reporting. The performance under each processing criterion was as follows:

- (i) **Road maps.** The quality of road maps is varied. For instance, the road map for the Azerbaijan road sector MFF was incomplete, especially regarding nonphysical investments. Although the physical investment part was in better shape, the sequencing of future investments was vague. The diagnostic work was sound, but not well reported. The Bangladesh railway MFF was not properly related to the overall transport and logistics road map. In contrast, the rural roads MFF in India and the national highways MFF in Pakistan have sound road maps, the result of good diagnostic work captured in each report and recommendation of the President (RRP). This is also the case with the irrigation sector and electricity transmission industry MFFs in Pakistan, and the power sector MFFs in India. The stand-alone MFFs in Viet Nam and the PRC have clear sector road maps and were reported accordingly.

Inadequate road maps do not always lead to bad MFFs, but they increase the risk of that happening. It implies an unclear strategic context and direction,

incomplete or inappropriate risk assessments, vagueness on the sequencing of interventions, and ultimately weak and unstructured warranties and representations. Road maps define problems and corresponding strategies.

- (ii) **Policy framework.** This is the least well covered of the MFF preconditions. Some operations could have been financed through other modalities. For example, a sector development program loan might have been a better fit for the Bangladesh railway MFF. The irrigation sector MFF in Pakistan has a policy framework (supported by a World Bank facility), but the RRP was mostly silent on this. The renewable energy MFF in Pakistan has a policy framework, but it was still in draft form when the MFF was approved. Although other MFFs have had better policy frameworks, most will need refinements. This is possible and desirable with an MFF. Inadequate policy frameworks are not new; the use of an MFF to create an enabling environment for investment is.
- (iii) **Investment program.** This precondition has been met reasonably in most cases, although the programs have been presented inconsistently. At times, the distinction between physical and nonphysical investments has been treated in an ad hoc manner. The distinction between long- and medium-term investments has been handled similarly.

Nonphysical investment needs are important success factors for sector investment programs. However, these have not been given the same prominence in documents. An inconsistent treatment of these issues can lead to an inconsistent set of warranties and representations. The major area of concern is capacity development and governance, including fiduciary oversight.

- (iv) **Financing plans.** The record on financing plans has been mixed. Some MFFs named partner financiers, but at times without proper care and attention to detail, and without securing their permission. The financing plans should distinguish clearly between the overall investment program and the individual tranches. Parallel cofinancing, a major form of cofinancing in MFFs, has not been well reported in documents. Some Board members have expressed concern about cofinancing.
- (v) **Warranties and representations.** The quality of the FFAs varied considerably on this issue. At times, some of the key warranties and representations in the FFAs were inconsistent with the information in the RRP, or were not appropriately interpreted and documented. Therefore, it has become necessary to refine their scope, and to replace warranties and representations with facility-level “undertakings”, i.e., commitments to take or maintain certain actions over the term of the MFF. Consequently, undertakings will present a better and monitorable set of commitments by the client over the term of the MFF.
- (vi) **Monitoring.** The monitoring arrangements have been vague. The design and monitoring frameworks (DMFs) are meant to track performance and report on them, but most do not do this well. Considerable improvement is needed in this area since DMFs should generate the right information for decision making by Management and Board oversight.

- (vii) **Reporting.** Reporting arrangements for MFFs are clear, but not all have provided for them clearly enough. This has generated concerns on the Board about oversight and decision-making filters.

46. The due diligence process for individual tranches has been more comprehensive than for the overall MFF. The due diligence for tranches followed ADB practices, focusing on technical, financial, economic, commercial, legal, regulatory, social, operational, safeguards, governance, capacity, gender, private sector involvement, fiduciary oversight, financial management, procurement, and anticorruption matters. The overall facility requires assessments of the preconditions outlined in para. 45. This might account for the shortcomings on the road map, policy framework, investment programs, financing plans, and warranties and representations.

## **H. Decision-Making Criteria and Filters**

47. The approval and implementation arrangements for MFFs during the pilot phase are included in the related staff instructions. With the benefit of experience, certain of the responsibility and accountability lines, and criteria for decision making, can be strengthened and streamlined.

## **I. Board Oversight**

48. After approving an MFF, as with any other project or financing, the Board continues to have important oversight functions. This requires adequate reporting by operational teams.

49. The Board currently receives monthly and quarterly performance reports on all projects and financings. These reports contain statistics on items such as (i) the number of financings approved; (ii) amounts mobilized, committed, and disbursed; (iii) time between selected milestones; and (iv) the number of missions fielded. They also aggregate numbers from across ADB and include certain MFF-related statistics. Considering the special features of the MFF modality, the Board may require related additional information in areas such as DMF updates; compliance with the undertakings; and changes in circumstance or material facts relating to the investment program or plan. Such comprehensive information should facilitate the Board's oversight. To reduce duplication and generally deliver the data efficiently and in a streamlined manner, it is proposed that the Board receive a consolidated report every year on all MFFs in each country.

## **J. Resources for Processing and Implementation**

50. The MFF requires staff continuity and significant reallocation of resources from processing to implementation. Recording information in the appropriate management information systems helps with implementation, but good management and application of such information is fundamental to success. ADB operational teams are not the only ones involved. Advisory and support teams also play an important role in procurement, legal matters, safeguards, among others. Some departments have started to post team members to the resident missions.

51. The processing of an MFF is more resource efficient than a stand-alone project. For a normal infrastructure project, 75 person-weeks of staff time are budgeted to achieve Board approval. This time is divided among the TA preparation phase, the due diligence process, and internal approvals. The comparable number for an average MFF is 90 person-weeks, because

of the extra due diligence for MFF precondition reviews. The processing time for the first tranche is estimated to be about the same as a stand-alone project (although in practice some tasks are carried out simultaneously, leading to significant time savings). Processing of subsequent tranches is estimated to take about 20 person-weeks.

52. However, a comparison of MFFs with stand-alone projects requires different assumptions. First, an MFF on average is equivalent to four stand-alone projects. This is based on the projected number of conversions of tranches over the utilization period of an approved MFF. Four stand-alone projects require 300 person-weeks (75x4). In contrast, the MFF processing cycle with four tranches requires 150 person-weeks—the standard 75 person-weeks for the first tranche, 15 person-weeks for due diligence of the MFF as a whole, and 20 person-weeks for each subsequent tranche. As such, an MFF reaches its break-even point vis-à-vis a stand-alone project at the time of the second PFR. This represents considerable time and related resource savings for clients and ADB.

53. Implementation of MFFs entails strong program management and additional time in the field. For stand-alone projects, 13 person-weeks are budgeted annually for project administration, compared with about 20 person-weeks for MFF implementation. In addition to spending time managing MFFs, ADB staff are also required to go to the field more often, which implies higher travel costs. The extra time spent on implementation is a strong and positive feature of MFFs. Other benefits of the MFF include (i) more opportunities for knowledge gathering and knowledge sharing on sector issues and trends, (ii) more entry points to address policy and procedure gaps, (iii) opportunities to change implementation plans while work is in progress, and (iv) more exposure by staff to sector and executing agency issues for longer periods. Appendix 3 provides a breakdown of time estimates for processing and implementation.

54. ADB's information technology systems do not yet efficiently track all the processing and implementation management time associated with MFFs. Initial steps have been taken to remedy this, but more advanced solutions are needed. The ADB-wide project processing and portfolio management (P3M) information technology upgrading project is working on this issue.

## **IV. MAINSTREAMING THE MULTITRANCHE FINANCING FACILITY**

### **A. Mainstreaming**

55. The pilot period expires in August 2008. Because of the high demand and portfolio size and the assessment presented in this paper, it is proposed that the MFF be mainstreamed and offered as a regular ADB financing modality. Mainstreaming the MFF reduces uncertainty in country programming and assures clients that ADB can be part of their long-term financing plans in chosen sectors. It contributes to ADB's development agenda of inclusive economic growth as set out in ADB's long-term strategic framework 2008-2020 (Strategy 2020).<sup>18</sup> It enables ADB to better respond, and tailor assistance, to the needs of clients. It also supports the creation and expansion of social and economic opportunities for the impoverished in the region, and enables broader access to these opportunities.

56. While the CPS captures broad strategic directions that ADB and a DMC have agreed upon, including priority sectors and themes for coverage, the MFF establishes a partnership in a

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<sup>18</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

chosen sector. For an MFF to work well, it has to be flexible. The Board needs to approve a maximum amount for each MFF under clear terms and conditions. Without this feature, the MFF is not attractive. Board approval of MFFs, on the other hand, requires the eligibility criteria, decision-making filters, and reporting arrangements to be streamlined and clear.

## **B. Preconditions**

57. The following are the main preconditions for the use of MFF. Most are the same as those utilized during the pilot period. The main differences are the extra clarity and precision, the early comparison of the MFF against other modalities, the specific entry points and criteria for decision making, the inclusion of facility-level undertakings, and the reporting arrangements.

### **1. Road Map**

58. The MFF requires a road map, which can be developed at the CPS stage or at any other time. The road map should define (i) the strategic directions for a sector, service, or industry; (ii) the importance it has 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.

59. Once the MFF has been mainstreamed, operational teams will provide information on the road map in the FFA.

### **2. Strategic Context**

60. An MFF needs a clear strategic context. The most obvious one comes from the relevant CPS, which is developed based on 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, as well as targets.

61. Once the MFF has been mainstreamed, operational teams will be required to describe the strategic context for the MFF. This information will appear first in the concept paper for the MFFs, one of the first decision-making filters by Management.

### **3. Policy Framework**

62. The MFF requires a policy framework that focuses on the main challenges and operating conditions in the relevant sectors to ensure efficiency, cost recovery, sustainability, and competition. Where none is available, or its content is considered unsatisfactory, other modalities should be used instead—program lending, sector development programs, advisory mandates financed through technical assistance loans/grants, sector loans, or stand-alone projects. The MFF finances physical and nonphysical investments. Although nonphysical investments can include policy changes, these should occur only within an existing policy platform. This “work in progress” approach also needs to be applied to crosscutting themes such as governance and safeguards.

63. A policy framework must cover more than 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. This information leads to reform actions over the short, medium, and long term. A policy framework aims to create the right environment for public and private investment. The changes or reforms address financial, economic, commercial, legal, regulatory, and institutional matters. The main principles and outcomes include cost recovery, optimal use of resources, sustainability, efficiency, competition, and transparency.

64. The policy framework will be part of the FFA. This information will appear first in the concept paper, to be considered by Management in determining whether the MFF is the most appropriate modality.

#### **4. Investment Program**

65. An MFF will require a detailed investment program, which should specify the physical and nonphysical investments required, as well as the corresponding resources needed. Where there is no investment program, large stand-alone projects will still be eligible for financing under MFFs, provided they have substantial and related individual components with long term implementation plans. In such cases, the MFF will require a detailed investment plan instead of an investment program.

66. The physical part of an investment program can be split into long-term and medium-term investments. National planning commissions often prepare or coordinate the preparation of longer-term plans (e.g., 2030 Vision in Pakistan). 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. Once the MFF has been mainstreamed, operational teams will be required to describe the sector investment plans. As far as possible, teams will also show projected tranche schedules over the period covered by the MFF.

67. Nonphysical investments address thematic and institutional issues, such as capacity development, governance, gender, private sector development, and safeguards. Regional cooperation is also becoming relevant. Where possible, these components should be financed through ADF and grant resources (in countries eligible for both ADF and OCR funding and in ADF-only countries), or through TA grants. This is generally an area suitable for official cofinancing (some partners only finance nonphysical investments), and for special funds and/or partnership facilities.

68. Given the substantial capacity constraints in most sectors, as well as in the institutions overseeing them, operational teams should incorporate financing for capacity development into individual MFF tranches. Exceptions to this should be clearly justified in the RRP. 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.<sup>19</sup> Depending on the specific capacity constraints identified, capacity development 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 other tranches; and (iii) special advisory services to work on policy framework refinements, planning assistance,

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<sup>19</sup> ADB. 2007. *Integrating Capacity Development into Country Programs and Operations Medium-Term Framework and Action Plan*. Manila.

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, safeguards, operational, governance, implementation, and disbursement. The third component can focus on planning; policy reformulations; results measurement; and overall MFF monitoring, evaluating, and reporting.

69. Such capacity development arrangements require proper due diligence followed by sound structuring. Planning well for both long- and short-term experts is a key to success. Estimating today the type of expertise needed tomorrow, including detailed projections of person-months and budgets, is complicated. Overall “mandates” will be needed, divided among various advisory teams, each managed by a team leader and comprising long-term advisors and short-term experts. The budgets should not be view as fixed, i.e., they should have sufficient contingencies to enable clients to engage additional experts as required on short notice. If necessary, expert and budget deficiencies can be corrected in subsequent tranches.

## **5. Financing Plan**

70. An MFF needs separate financing plans for the entire facility and for individual tranches. Where feasible, financing plans should specify the sources of finance, time, 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 only participates in the international financier part of the financing plan.

## **6. Undertakings**

71. To blend investment (physical) with thematic matters (nonphysical), future MFFs will include facility-level undertakings, including any warranties and representations where necessary, relating to principles and actions on sector, operational, thematic, financial, legal, institutional, policy, and other areas. These would be commitments by clients to take or maintain certain actions over the term of the MFF. Such undertakings will provide a broader and monitorable set of commitments. More specific covenants can be described in the individual legal agreements. Facility-level undertakings, which will be set out in the FFA, will capture basic principles and criteria under which ADB will make finance available. They will also cover ADB operating policies and procedures. A breach of undertakings will trigger ADB’s right to hold back financing, and to suspend or terminate the MFF.

## **7. Decision-Making Criteria and Filters**

72. Decision-making criteria and filters for the MFF will be included in the *Operations Manual*, which will supersede the *Compendium of Staff Instructions* (footnote 5). Appendix 4 summarizes the approval process for MFFs and the lines of authority and accountability for the overall facility and the tranches.

73. The criteria will determine when financing for MFFs and individual tranches will be approved, rejected, terminated, and suspended. The criteria separate processing from implementation. During the processing cycle, the concept paper becomes the first major entry point for Management to decide on the suitability of an MFF. At this stage, the teams must justify the choice of modality. This will be done by producing a matrix comparing the MFF with other instruments and modalities. The concept paper will also provide an early opportunity for Management to consider an indicative road map, strategic context, policy framework, investment program, financing plan, list of key issues and constraints, likely undertakings, and the proposed due diligence plan. The processing cycle also offers additional entry points for decision making (due diligence reports, Management review meetings, staff review committee meetings, negotiation of the FFA and legal agreements, and the preparation of the RRP). These entry points allow Management to check for compliance with each of the preconditions.

74. Each MFF will include a DMF, and each tranche will have its own DMF. During implementation, the DMF for the overall facility will track the direction of the road map, policy framework, safeguards framework, financing plan and broad investment program, inputs, outcomes, and results. Review mission reports will update this information. MFF teams will use this material in the annual reports submitted to the Board on each MFF. 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 in these areas may trigger decisions by Management leading to termination or suspension of MFF, or rejection of the PFRs, or suspension or cancellation of the related tranche.

### **C. Sector and Investment Eligibility**

75. The MFF will be eligible to provide financing in all sectors, services, industries, and thematic areas covered by ADB in that country (ideally at the CPS stage). The MFF can finance multiple projects under an investment program in a sector or in various 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 large stand-alone projects or investment programs.

### **D. Conversion Instruments**

76. The facility amount approved for an MFF can be converted into loans, grants, guarantees, and also to any cofinancings administered by ADB. The loans can be funded from OCR or Special Funds resources. Grants can be funded from Special Funds resources or any fund administered by ADB. Loans to financial intermediaries can be utilized for a range of projects consistent with ADB's policy on financial intermediation loans<sup>20</sup> Guarantees can be partial credit guarantees or political risk guarantees. Equity financing is not considered appropriate for MFFs at this stage. While sector loans were permitted only in the first tranche in the pilot phase, now any tranche can be converted into a sector loan. Each tranche will offer standard ADB financial terms and conditions, including variations on tenors, currency options, swaps, and fixed and variable repayment schedules. The financial terms and conditions may differ among tranches.

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<sup>20</sup> ADB. 1987. *Review of ADB Policies on Credit Lines to Development Finance Institutions*. Manila.

77. Any financing from ADF (loans or grants) will require the financing packages to be synchronized with the ADF availability cycle, and to take into account possible changes resulting from the performance-based allocation exercise. The FFA should emphasize the indicative nature of the funding commitment against the availability of funds.

#### **E. Limited Supplementary Financing**

78. Any portion of the facility amount may be applied to provide supplementary financing of purely price or financing arrangement changes in prior ADB interventions in the same sector. The likely requirement for such supplementary financing should be included in the assessments leading to the preparation of the MFF road map with respect to the quality of existing and future assets. This is the most limited type of supplementary financing provided by ADB and its inclusion within the MFF modality would be consistent with, and, indeed leverage off the programmatic orientation of the MFF. Of course, in addition to MFF processing requirements, the appraisal procedures for this type of supplementary financing set forth in ADB's *Policy on Supplementary Financing*<sup>21</sup> must also be satisfied.

#### **F. Administration of Cofinancing**

79. Any portion of the facility amount approved for an MFF can also be converted into cofinancing to be administered by ADB. Cofinancing may be joint or parallel. It is proposed that administration of such cofinancing by ADB not be separately approved by the Board, but be reported to the Board for information as part of the annual report. This approach will provide flexibility, streamline procedures, and support better implementation of the MFF.

#### **G. Multitranche Financing Facility Processing**

80. The main steps, criteria, and filters for processing, implementing, and reporting on the MFF are summarized in paras. 81–92.

##### **1. Concept Clearance**

81. 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 relevant vice president to approve).<sup>22</sup> The format for the papers will be similar to the one used for stand-alone loan projects. However, it will include variations to accommodate the additional information needs of the overall facility: sector road map, strategic context, policy framework, matrix to justify the modality vis-à-vis others, investment program (divided between physical and nonphysical investments), and financing plan. Other information to be provided will include the indicative size of the MFF and the first 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 5 illustrates the methodology involved in a problem tree analysis.

##### **2. Implementation, Due Diligence, and Design and Monitoring Frameworks**

82. ADB staff will work with clients and advisors on the implementation of the MFF, including the processing of new tranches, and the monitoring, evaluation, and reporting on previous tranches. ADB staff will pay particular attention to the undertakings included in the FFA.

<sup>21</sup> ADB. 2005. *Review of the Policy on Supplementary Financing: Addressing Challenges and Broader Needs*. Manila.

<sup>22</sup> ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

83. DMFs highlight inputs, outputs, outcomes, and results. Principles to be measured under MFFs may include cost recovery, efficiency, competition, resource management, transparency, and sector development. DMFs will capture the MFF impact, policy factors; road map; investment and financing plans; and the nonphysical components, including crosscutting themes and regional cooperation.

84. The due diligence plans will distinguish between the MFF and its tranches. The overall facility will require work on the road map, strategic context, policy framework, and investment and financing plans. This will help establish a safeguard framework and define the corresponding undertakings; any required policy refinements; action plans on given themes; the planning and phasing of interventions; reporting requirements; and mechanisms for monitoring, evaluating, and measuring results. A DMF will be prepared for the overall facility. Each tranche will also have its own DMF.

85. Each of the tranches will involve, as applicable, due diligence on technical, commercial, legal, regulatory, financial, economic, social, governance, fiduciary oversight, capacity, procurement, anticorruption, implementation, safeguards, and other matters. Unless modified in this paper and/or the related Operations Manual, the processing and implementation of MFFs will follow standard ADB policies and operational procedures, including all compliance requirements, for processing loans, grants, guarantees, and credit lines. In the event a client requests retroactive financing for each tranche under the MFF, it should be discussed in the RRP, and included in each PFR. Subsequent tranches will benefit from the work of advisors engaged with funds from clients or from the MFF.

86. Changes in MFFs that would require Board approval will include (i) a substantial and material change in the strategic direction of the road map, (ii) a change in the policy framework that negatively affects the viability or sustainability of the investment program/plan, (iii) a change in the sectors covered by the investment program, or (iv) substantial and material change in the type of the investments contemplated under the investment program/plan.

### **3. Documentation**

87. For an MFF, the FFA will be a critical document between ADB and its client; for individual tranches, the respective legal agreements between ADB and its client will document the specific terms and conditions under which the financing is being provided. The FFA sets out the principal features of the investment program or the project; it also covers the undertakings made by the client to ADB. When the negotiations are held at ADB headquarters in Manila, the negotiated FFA will be signed by the client and the concerned director general (or an authorized representative); when negotiations are held in the field, the client and the relevant country director (or an authorized representative) will sign it. The FFA should be signed before the Board considers a proposed MFF. If this is not achievable due to operation of any local law or government policy or any other exceptional circumstance, the FFA may be signed after Board approval, but any material change must be resubmitted to the Board for approval. 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.

88. There is a need to simplify the FFA as it has grown into an unwieldy document. Safeguard frameworks, which are separately agreed with the clients, will be incorporated by reference instead of being attached to the FFA. The RRP for MFFs will require a new format to capture the MFF preconditions. A reduction in the duplication of information currently contained

in the FFA increasingly is needed. For example, the road map, strategic context, policy framework and investment program, provided in the FFA need only be summarized in the RRP.

#### **4. Reporting and Monitoring**

89. A consolidated annual report will be prepared for all approved MFFs in each country by the relevant regional departments and submitted to the Board in January every year. This will help bypass the traditional “bunching” season, and give the Board an opportunity to seek early clarifications on the performance of each approved MFF. The report 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; and (v) any changes in circumstance or material facts relating to the investment program/plan.

90. A project performance monitoring system will be established for the entire MFF, as well as for its individual tranches. In addition to individual project completion reports for each financing, once the MFF has been mainstreamed, a facility completion report will be prepared for the facility as a whole. Post-evaluation reviews may be undertaken of the overall MFF or any of its tranches.

#### **5. Disclosure**

91. 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; and (viii) draft resettlement plan and draft indigenous people’s development plan before appraisal, in case of the first tranche, and before Management review of the PFR, in case of the second and subsequent tranches. ADB shall also make the PFRs available to interested parties on request.

#### **6. Approvals**

92. All MFF proposals will be submitted to the Board for approval, following standard ADB rules and procedures for sovereign project processing. MFFs will be subjected to Management review meetings and staff review committee meetings. The FFA and first PFR will be attached to the RRP for an MFF. Management will convert the facility amount approved by the Board into financings for individual tranches. Tranches will be processed by the regional departments and approved by the 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. Any surplus under an individual tranche that is canceled will replenish the overall facility by an equivalent amount. Management review meetings for the second and subsequent tranches will be held at the discretion of the concerned vice president.

## **7. Transition**

93. This mainstreamed MFF policy is effective on the date of approval by the Board. It will apply to new MFF proposals, and to subsequent tranches under the existing MFFs. Any new MFF proposal that has not yet been considered by the Board should be reviewed for compliance.

## **V. RECOMMENDATION**

94. The President recommends that the Board approve the mainstreaming of the MFF modality substantially along the lines described in this paper.

## COMPARISON OF MULTITRANCHE FINANCING FACILITY AND OTHER MODALITIES

PRODUCT	PURPOSE	WHAT IT PAYS FOR	FORM IN WHICH IT IS PROVIDED	DISBURSEMENT	CLIENT
<b>A. Loans</b>					
Project Loan (sovereign)	To finance a project	Project costs	One loan up front	In amounts requested, against project cost	DMCs, public sector nonsovereigns
Nonsovereign Loan (without a sovereign guarantee)	Project or corporate finance requirements	Project costs and corporate operating or capital expenses	One loan up front	In amounts requested, against agreed conditions	Private sector; public sector nonsovereigns (IEI Product)
Policy-based Program Loan	To finance a reform program	Cost of reforms, adjustment costs and budget requirements	One loan up front	In tranches, against completion of agreed conditions	DMCs
Sector Development Program Loan	To finance a reform program and specific project linked to sector and program (normally small in size)	Cost of reforms, adjustment costs or budget requirements, and project costs	Two loans up front (one a policy-based program loan, the other a project loan)	Policy-based program loan: in tranches against completion of agreed conditions. Project loans: in amounts requested against project cost	DMCs
Sector Loan	To finance numerous and comparatively small subprojects within a sector	Cost of subprojects	One loan up front	In amounts requested against cost of subprojects	DMCs
Financial Intermediary Loan	To finance directed investments of financial intermediaries	Credit lines extended by the financial intermediary	One loan up front	In amounts requested to fund the credit lines	Financial Intermediaries
Technical Assistance Loan	To finance a technical assistance mandates	Mandate costs	One loan up front	In amounts requested against mandate cost	DMCs, public sector nonsovereigns, and private entities

PRODUCT	PURPOSE	WHAT IT PAYS FOR	FORM IN WHICH IT IS PROVIDED	DISBURSEMENT	CLIENT
Supplementary Loan	To supplement financing of ongoing projects where original financing is insufficient	Project costs	One loan up front	In amounts requested against project cost	DMCs, public sector nonsovereigns, and private entities
<b>B. Guarantees</b>					
Partial Credit Guarantees (with or without sovereign guarantee to cover ADB risk)	To guarantee partial repayment of amounts owed to lenders of ADB's client.	Guaranteed amounts	Guarantee	Amounts guaranteed and proven as owed.	DMCs, public sector sovereigns, and private entities
Political Risk Guarantees (with or without sovereign guarantee to cover ADB risk)	To guarantee repayment of amounts owed to lenders of ADB's client where repayment fails due to political risk (e.g., breach of contract, FX conversion risk, FX repatriation risk, expropriation)	Guaranteed amounts	Guarantee	Amounts guaranteed and proven as owed.	DMCs, public sector sovereigns, and private entities
<b>C. MFF</b>					
Mainstreamed MFF	To finance through loan, grant, guarantee, or administered cofinancing over time (a) multiple projects under an investment program in a sector or in various sectors (b), large stand-alone projects with substantial and related individual components (c) slices of large contract packages. As part of the above, financing will also cover non-physical investments.	Investment costs	Maximum amount approved under facility. A series of loans, grants, or guarantees, are committed separately over a period of time for the estimated cost of projects as they become ready for financing. OCR and ADF financing possible, the latter depending on the eligibility, need, availability and allocation conditions	Amount for each financing committed out of available MFF amount against a financing request. Each separate financing disbursed as a regular loan/grant.	DMCs, public sector sovereigns.

## TABLES OF MULTITRANCHE FINANCING FACILITY STATISTICS

Table 1: Approved MFF Programs  
(as of 30 April 2008)

Ctry	MFF Program/Project	MFF Approval Date	MFF Amount (\$ Million)		End of Availability Period	MFF Years	Expected No. of Tranches	MFF to Est. Cost of Investment Program (%)	Est. Investment Cost of Program (\$Million)
			OCR	ADF					
PAK	National Highway Development Sector Investment Program	13-Dec-05	770.00		31-Dec-10	10	4	79.64	966.80
IND	Rural Roads Sector II Investment Program	20-Dec-05	750.00		31-Mar-09	5	5	36.06	2,080.00
IND	Uttarakhand Power Sector Investment Program	30-Mar-06	300.00		31-Jan-13	7	4	5.88	5,100.00
BAN	Railway Sector Investment Program	10-Oct-06	400.00	30.00	31-Dec-13	5	4	80.00	537.50
PAK	Renewable Energy Development Sector Investment Program	01-Dec-06	500.00	10.00	31-Dec-17	10	3	23.18	2,200.00
IND	North Karnataka Urban Sector Investment Program	06-Dec-06	270.00		31-Dec-14	9	4	61.36	440.00
PAK	Power Transmission Enhancement Investment Program	12-Dec-06	790.00	10.00	31-Dec-16	10	3	20.20	3,960.00
PAK	Punjab Irrigated Agriculture Investment Program	13-Dec-06	890.00	10.00	30-Sep-17	10	4	26.01	3,460.00
PRC	Gansu-Heihe Rural Hydropower Development Investment Program	13-Dec-06	50.00		31-Dec-13	7	2	45.45	110.00
IND	Uttarakhand State Road Investment Program	18-Dec-06	560.00		31-Dec-17	10	5	66.27	830.00
IND	Madhya Pradesh Power Sector Investment Program	29-Mar-07	620.00		31-Dec-11	8	7	11.61	5,340.00
IND	Jammu and Kashmir Urban Sector Development Investment Program	31-May-07	300.00		31-Dec-15	8	5	61.86	485.00
VIE	Mong Duong Thermal Power Investment Program	21-Sep-07	930.71		30-Jun-13	6	2	84.61	1,100.00
AZE	Road Network Investment Program	28-Sep-07	490.00	10.00	31-Dec-14	7	3	14.71	3,400.00
IND	Rajasthan Urban Sector Development Program	31-Oct-07	273.00		31-Dec-14	7	3	70.00	390.00
PAK	National Trade Corridor (NTC) Highway Investment Program	10-Dec-07	890.00	10.00	30-Jun-12	10	3	17.00	5,400.00
IND	Infrastructure Project Financing Facility (IPFF)	14-Dec-07	500.00		30-Nov-11	4	4	8.00	6,000.00
IND	Uttarakhand Urban Sector Development Investment Program	24-Jan-08	350.00		25-Jan-16	8	4	70.00	500.00
IND	National Power Grid Development Investment Program	28-Mar-08	600.00		31-Mar-15	7	2	23.60	2,542.00
	Subtotal		10,223.71	80.00					
	Total	(OCR+ADF)	10,303.71			148	71		44,841.30
	Average		542.30			7.79	3.74	22.98	

ADF= Asian Development Fund, AZE=Azerbaijan, BAN= Bangladesh, IND= India, OCR= ordinary capital resources, PAK= Pakistan, PRC= People's Republic of China, VIE= Viet Nam, MFF= multitranche financing facility

Source: ADB, 2005-2008 Reports and Recommendation of the President and Loan Agreements, Manila, Management Information System, Mission Leader updates.

**Table 2: Approved MFF Programs Contract Awards and Disbursements**  
(as of 30 April 2008)

Ctry	MFF Program/Project	MFF Approval Date		MFF Amount (\$ million)		Tranche Amount (\$ million)		Loan Agreement Dates			Contract Awards (cumulative) Amount (\$ million)		Disbursements (cumulative) Amount (\$ million)		
		Approval	Date	OCR	ADF	OCR	ADF	Approval	Signing	Effectiveness	Net Amount	Amount	%	Amount	%
PAK	National Highway Development Sector Investment Program	13-Dec-05		770.00		180.00		15-Feb-06	14-Jun-06	27-Jul-06	180.00	107.02	59.46	27.19	15.11
IND	Rural Roads Sector II Investment Program	20-Dec-05		750.00		180.00		31-Jul-06	29-Aug-06	18-Oct-06	180.00	180.00	100.00	118.02	65.57
IND	Uttarakhand Power Sector Investment Program	30-Mar-06		300.00		77.65		17-Mar-08	28-Mar-08		77.65				
BAN	Railway Sector Investment Program	10-Oct-06		400.00	30.00	41.92		02-Jan-07	22-Feb-07	29-Mar-07	41.92	17.39	41.48		
PAK	Power Transmission Enhancement Investment Program	12-Dec-06		790.00	10.00	226.00		13-Feb-07	15-Feb-07	24-Apr-07	100.00	8.37	8.37	1.47	2.49
								13-Dec-06	16-Jan-07	11-May-07	226.00	61.09	27.03	20.14	8.91
PAK	Punjab Irrigated Agriculture Investment Program	13-Dec-06		890.00	10.00	220.00		17-Dec-07			220.00				
						217.80 <sup>a</sup>		18-Dec-06	22-Jun-07	24-Aug-07	246.10			0.95	0.44
PRC	Gansu-Heihe Rural Hydropower Development Investment Program	13-Dec-06		50.00		22.00		18-Dec-06	22-Jun-07	24-Aug-07	10.99				
								18-Dec-06	19-Jan-07	16-Mar-07	22.00	22.64	102.91	15.93	72.41
IND	Madhya Pradesh Power Sector Investment Program	29-Mar-07		620.00		28.00		28-Jan-08	04-Mar-08		28.00				
						106.00		04-Apr-07	12-Apr-07	14-May-07	106.00	74.36	70.15	15.93	15.03
						45.00		04-Apr-07	12-Apr-07	14-May-07	45.00	41.94	93.20	5.31	11.80
						144.00		21-Aug-07	23-Aug-07	24-Sep-07	144.00	98.33	68.28	10.99	7.63
						90.00		21-Aug-07	07-Mar-08		90.00				
PAK	Renewable Energy Development Sector Investment Program	01-Dec-06		500.00	10.00	105.00 <sup>a/</sup>		13-Dec-06	05-Oct-07	29-Nov-07	120.06			0.004	0.00
								13-Dec-06	05-Oct-07	29-Nov-07	11.07				
IND	North Karnataka Urban Sector Investment Program	06-Dec-06		270.00		33.00		26-Jan-07	23-Jan-08	25-Apr-08	33.00				
IND	Uttarakhand State Road Investment Program	18-Dec-06		550.00		50.00		02-Jan-07	25-Oct-07	14-Jan-08	50.00	44.43	88.86	4.50	9.00
IND	Jammu and Kashmir Urban Sector Development Investment Program	31-May-07		300.00		42.20		04-Jun-07	28-Dec-07	25-Mar-08	42.20				
VIE	Mong Duong Thermal Power Investment Program	21-Sep-07		930.71		27.86		02-Oct-07	09-Oct-07	27-Mar-08	27.86				
AZE	Road Network Investment Program	28-Sep-07		490.00	10.00	190.00		04-Oct-07	15-Jan-08	03-Mar-08	190.00				
								04-Oct-07	15-Jan-08	03-Mar-08	10.65				
IND	Rajasthan Urban Sector Development Program	31-Oct-07		273.00		60.00		08-Nov-07	17-Jan-08	28-Feb-08	60.00	10.94	18.23		
PAK	National Trade Corridor Highway Investment Program	10-Dec-07		890.00	10.00			17-Dec-07			10.51				
						545.00		17-Dec-07			545.00				
IND	Infrastructure Project Financing Facility	14-Dec-07		500.00		300.00		20-Dec-07	03-Mar-08	14-Apr-08	300.00				
IND	Uttarakhand Urban Sector Dev Investment Program	24-Jan-08		350.00		60.00		01-Feb-08			60.00				
IND	National Power Grid Dev. Investment Program	28-Mar-08		600.00		400.00		28-Mar-08			400.00				
	<b>Subtotal</b>			<b>10,223.71</b>	<b>80.00</b>	<b>3,491.43</b>	<b>80.00</b>				<b>3,621.76</b>	<b>671.71</b>		<b>221.18</b>	
	<b>Total</b>			<b>10,303.71</b>		<b>3,571.43</b>									

ADF= Asian Development Fund, AZE= Azerbaijan, BAN= Bangladesh, IND= India, OCR= ordinary capital resources, PAK= Pakistan, PRC= People's Republic of China, VIE= Viet Nam

MFF= multitranche financing facility

Source: 2005-2008 Reports and Recommendation of the President and Loan Agreements, Management Information System, Regional Departments' updates.

a/ The \$ equivalent of the Yen loan at the time loan was approved.

b/ The \$ equivalent of the loan amount as of 30 April 2008.

**MULTITRANCHE FINANCING FACILITY RESOURCE IMPLICATIONS**

	<b>Budget Coefficient for Staff Weeks<sup>a</sup></b>		<b>Estimates on Required Staff Weeks<sup>e</sup></b>	<b>Staff Weeks Saved (Additional)</b>
	<b>(a)</b>		<b>(b)</b>	<b>(a-b)</b>
Processing		Processing		
Project	75	MFF & PFR 1 <sup>d</sup>	90	(15)
Project (+PPTA) <sup>b</sup>	93 <sup>c</sup>	PFR 2 <sup>d</sup>	30	63
Project (+PPTA) <sup>b</sup>	93 <sup>c</sup>	PFR 3 <sup>d</sup>	30	63
Project (+PPTA) <sup>b</sup>	93 <sup>c</sup>	PFR 4 <sup>d</sup>	30	63
Total	354 <sup>c</sup>	Total	180	174
Administration and Monitoring		Administration and Monitoring		
Project	13	MFF & PFR 1 <sup>d</sup>	20	(7)
Project	13	PFR 2 <sup>d</sup>	20	(7)
Project	13	PFR 3 <sup>d</sup>	20	(7)
Project	13	PFR 4 <sup>d</sup>	20	(7)
Total	52	Total	80	(28)

<sup>a</sup> The budget coefficient for staff time to process a normal infrastructure project is 75 staff weeks. The annual budget coefficient to implement a normal infrastructure project is 13 staff weeks.

<sup>b</sup> The budget coefficient for PPTAs is added here to reflect savings generated out of PPTAs which will not be provided to prepare PFRs. Under MFFs, the use of PPTAs to prepare subsequent PFRs is discouraged.

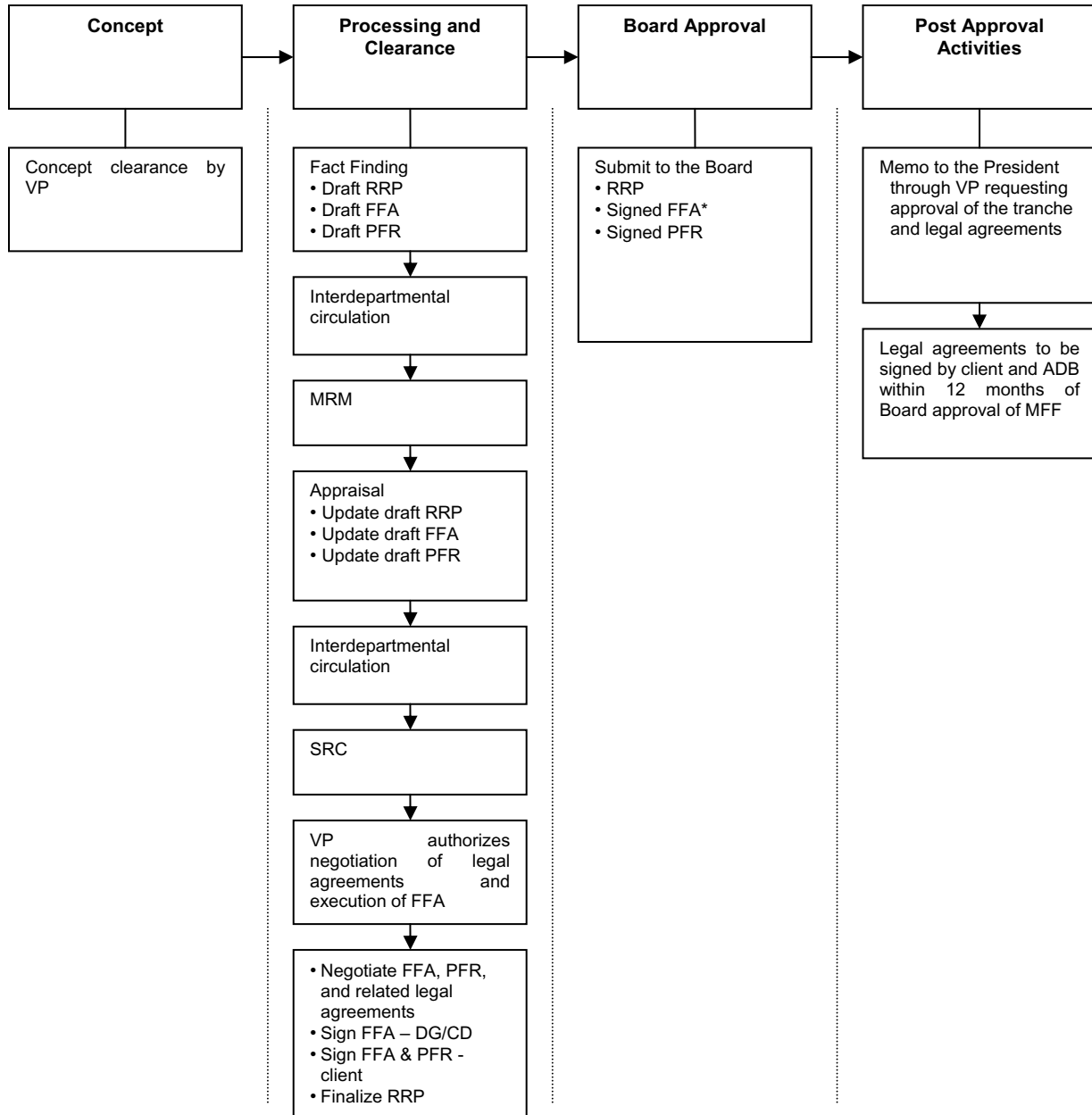
<sup>c</sup> These numbers represent the aggregate budget coefficient for processing and implementing a PPTA (10 and 8 staff weeks, respectively), and processing a normal infrastructure project (75 staff weeks).

<sup>d</sup> On average, one MFF has about four PFRs. Each PFR is the functional equivalent of one normal infrastructure project.

<sup>e</sup> The numbers in this column are estimates of the actual number of staff weeks needed to process MFF and its PFRs, and to monitor and administer them. Since the use of PPTAs to prepare subsequent PFRs is discouraged, the budget coefficient for PPTA processing and implementation have not been added to the numbers in this column.

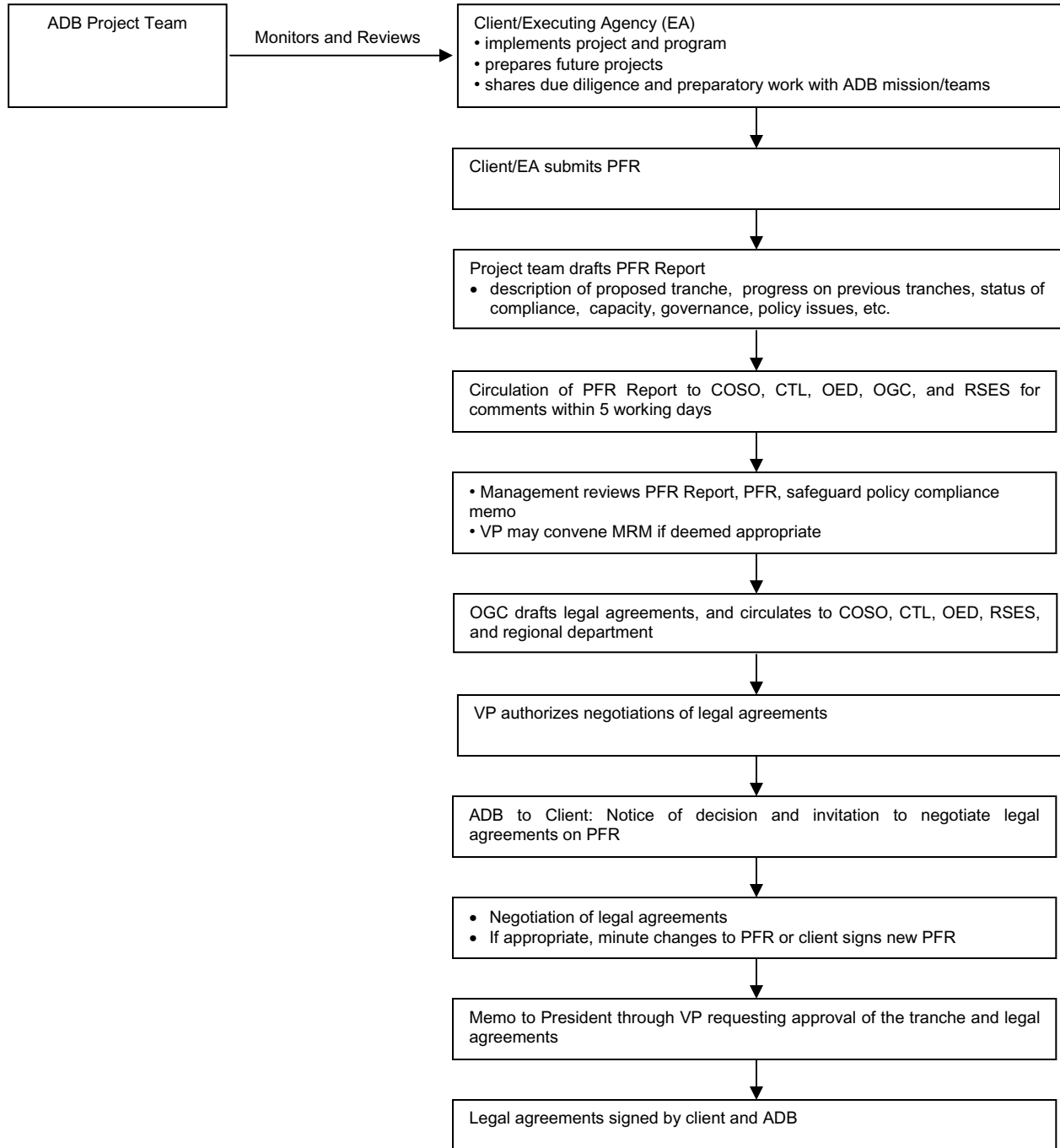
## MULTITRANCHE FINANCING FACILITY APPROVAL PROCESS

### Flow Chart for Processing First PFR



\*In exceptional cases, FFA & PFR may be unsigned at the time of submission to the Board

### Flow Chart for Processing Second and Subsequent PFRs



**PROBLEM TREE ANALYSIS**

