MULTITRANCHE FINANCING FACILITY

A. Scope

1. A multitranche financing facility (MFF) establishes a longer-term partnership between ADB and a client in a sector(s) under sovereign operations, and enables ADB to provide a series of tranches (loans or guarantees) as and when the investments for such sector(s) are ready and the client requests for financing. It also provides ADB and its clients multiple entry points for policy dialogue because lessons from an earlier tranche can be applied to a subsequent one (endnote i).

2. The MFF may provide financing in all sectors covered by ADB in that country. In general, it can finance (i) multiple projects under an investment program in a sector or in various sectors, and (ii) large stand-alone projects with substantial and related individual components with a long-term implementation. The MFF may also finance slices of long-term contract packages in such large stand-alone projects or investment programs (endnote i).

A. Preconditions

3. There are six preconditions for the use of MFF: (i) road map, (ii) policy framework, (iii) strategic context, (iv) investment program, (v) financing plan, and (vi) undertakings. They denote the longer-term partnership between ADB and its clients under which the MFF provides financing (endnote i).

4. Road map. The road map defines
   (i) the strategic directions for a sector;
   (ii) the sector’s importance to (or the extent to which the sector limits) growth, poverty reduction, and inclusiveness;
   (iii) the list of success factors for better sector performance; and
   (iv) detailed assessments of the main investment and non-investment bottlenecks, risks, and mitigation measures.

5. Policy framework. Based on the road map, the policy framework summarizes
   (i) main challenges and operating conditions on (a) cost recovery, (b) use of resources, (c) sustainability, (d) efficiency, (e) competition, and (f) transparency; and

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1 The terms “lending” and “loan(s)” include grant(s).
2 The term “sector” includes services, industries, and thematic areas.
3 Where a policy framework is unavailable, or its content is considered unsatisfactory, other financing modalities should be used instead.
(ii) the targets for change and reform actions that address (a) financial, (b) economic, (c) commercial, (d) legal, (e) regulatory, and (f) institutional challenges over the short, medium, and long term.

6. **Strategic context.** The strategic context generally explains how the longer-term partnership under the MFF (para. 1) fits into the country partnership strategy, which articulates the areas where ADB will deliver financing and ideas.\(^4\)

7. **Investment program.** The investment program specifies the physical and nonphysical investment interventions needed and their sequencing, as well as the corresponding resources needed.\(^5\)
   
   (i) The physical part of an investment program can be split into long-term and medium-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.
   
   (ii) Nonphysical investments address sector policy, thematic, and institutional issues (such as capacity development, governance, gender, private sector development, regional cooperation, safeguards, and social development). Capacity development should be incorporated into individual MFF tranches for institutions with capacity constraints; otherwise, exceptions should be clearly justified in the report and recommendation of the President.

8. **Financing plan.** Separate financing plans are prepared for the MFF and for individual tranches. Where feasible, financing plans should specify amounts, timing, and sources of finance.\(^6\)

9. **Undertakings.** MFF undertakings comprise a broader and monitorable set of commitments by clients to take or maintain certain actions on sector, operational, thematic, financial, legal, institutional, policy, and other areas over the term of the MFF. A breach of undertakings triggers ADB’s right to hold back financing, and to suspend or terminate the MFF.

B. **Framework Financing Agreements**

10. A framework financing agreement (FFA) is a critical document between ADB and its client that sets out the principal features of the investment program and the undertakings made by the client to ADB (para. 9). The FFA should emphasize the indicative nature of the funding commitment against the availability of funds.\(^7\) The FFA is negotiated with the client and signed by

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\(^4\) In contrast with the partnership formed under an MFF, a country partnership strategy captures broad strategic directions and priority sectors and themes that ADB and a DMC have agreed to cover.

\(^5\) If no investment program exists, large stand-alone projects are still eligible for financing under MFFs provided they have substantial and related individual components with long-term implementation plans. In such cases, the MFF requires a detailed investment plan instead of an investment program (endnote i).

\(^6\) Financing plans should distinguish among resources generated by the client, national financiers, and/or international financiers. Usually, ADB only participates in the international financier part of the financing plan.

\(^7\) 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 with respect to such tranche. Consequently, ADB has the right to deny any financing
the concerned head of department or the country director generally before Board consideration (endnote i).8

C. **Tranches under Multitranche Financing Facility**

11. The amount approved for an MFF may be converted into loans (as project, sector, or financial intermediation loans), guarantees (as partial credit or political risk guarantees), and cofinancing administered by ADB.9 Each tranche offers standard ADB financial terms and conditions, and such terms and conditions may differ among tranches (endnote i).

12. Any financing using concessional resources requires the financing packages to (i) be synchronized with the availability cycle of concessional resources, and (ii) consider possible changes resulting from the performance-based allocation exercise.10

D. **Procedures, Decision-Making Criteria, and Filters**

13. **Concept clearance.** ADB prepares a concept paper for the MFF, which contains (i) an assessment of compliance with the preconditions relating to the indicative road map, policy framework, strategic context, investment program, and financing plan ( paras. 3–8), (ii) a matrix comparing the MFF with other instruments and modalities to justify its applicability, and (iii) an indication of the size of the MFF and the first tranche. Concept approval serves as the first major entry point for Management to decide on the suitability of an MFF (endnote i).

14. **Approval of MFF.** MFF proposals follow the procedures for sovereign operations, and are submitted to the Board, which approves a maximum amount for each MFF under specific terms and conditions.11 The FFA and the client’s request for the first tranche (in the form of a periodic financing request) are attached to the report and recommendation of the President (endnote i).

15. **Approval of tranches.** Pursuant to Board approval, Management converts the MFF amount into loans, guarantees, or cofinancing administered by ADB.12 The legal agreement for the first tranche is executed within 12 months of Board approval of the MFF; otherwise, the validity request made by a client, cancel the uncommitted portion of the MFF, and withdraw the client’s right to request any uncommitted tranche under the MFF. Similarly, the client is not obliged to request any financing and has the right to cancel any uncommitted portion of the MFF. The FFA states that ADB may cancel the MFF or reject a financing request in cases of (i) material noncompliance with ADB policies or FFA undertakings or (ii) significant delays in submitting financing requests or implementing the investment program.

8 If the FFA cannot be signed before Board consideration because of any local law, government policy, or exceptional circumstance, the FFA may be signed after Board approval, but any material change is resubmitted to the Board for approval (endnote i).

9 An MFF does not support equity financing (endnote i).

10 Operations Manual sections on allocation of concessional resources (OM A3) and lending and grant policies (concessional assistance) (OM D2).

11 Operations Manual sections on Sovereign Operations (OM D11). MFF proposals include due diligence on the first tranche of the MFF, with all relevant information on the tranche included in the report and recommendation of the President in the same manner as it would for a project loan.

12 Administration of such cofinancing by ADB may be approved as a tranche. Approval is reported to the Board for information as part of the MFF annual report (para. 19).
of the MFF approval lapses. Each of the tranches (i) involves due diligence on technical, commercial, legal, regulatory, financial, economic, social, governance, fiduciary oversight, capacity, procurement, anticorruption, implementation, safeguards, and other matters; and (ii) has a DMF. In deciding whether to approve the second and subsequent tranches, Management considers the preconditions (paras. 3–9), achievement against the road map, investment program, and policy considerations, and compliance with the undertakings under the FFA and loan covenants. The President approves each tranche (endnote i).

16. **Changes in MFF.** Board approval is required if a change in MFF includes (i) a substantial and material change in the strategic direction of the sector road map, (ii) a change in the policy framework that negatively affects the viability or sustainability of the investment program, (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 (endnote i).

17. **Additional financing to MFF.** When the funding requirements exceed the MFF amount, Board approval is required to increase the MFF amount in accordance with the Operations Manual section on additional financing (OM H5) (endnote ii).

18. **Additional financing from MFF.** Any portion of the MFF amount may be provided under a tranche for the additional financing of purely price or financial arrangement changes in prior ADB projects in the same sector, provided the road map (para. 4) identifies the need for such additional financing in its quality assessment of existing and future assets. Such tranche follows para. 15 as well as the due diligence requirements for additional financing (endnote i).

**E. Reporting and Monitoring**

19. A consolidated annual report is prepared for all approved MFFs in each country by the relevant regional departments and submitted to the Board in January every year (endnote i). The report provides the following information:

   (i) data on 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 plan; and
   (vi) approval of ADB’s administration of cofinancing.

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13 Extension of validity requires Board approval (endnote i).

14 Projects with an environmental impact category A classification in a subsequent tranche are submitted to the Board for its decision as to whether to authorize the President to convert the tranche. Management approves the conversion of the MFF amount originally approved by the Board into a tranche to finance that project only if the Board decides to authorize such conversion. The regional department prepares a paper for Board consideration. The paper is edited by the Office of the Secretary and circulated to the Board on a no-objection basis with at least 21 calendar days between the circulation of the paper and Board consideration.

15 The price changes are exclusively caused by exogenous factors (price increases of specific inputs or overall inflation, currency movements, or increases in taxes and/or duties).
F. Disclosure

20. In addition to ADB’s Public Communications Policy 2011, the following documents are made publicly available: FFA upon approval of the MFF by the Board; the consolidated annual report upon circulation to the Board; and facility completion report upon circulation to the Board. ADB also makes the PFRs available to interested parties on request (endnote i).

Basis
