OPERATIONS MANUAL
POLICIES AND PROCEDURES

MULTITRANCHE FINANCING FACILITY

A. Scope

1. A multitranche financing facility (MFF) establishes a longer-term partnership between the Asian Development Bank (ADB) and a client in a sector(s) under sovereign operations and enables ADB to provide a series of tranches (loans[1] or guarantees) as and when the investments for such sector(s) are ready and the client requests 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. An 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,[2] and (ii) large stand-alone projects with substantial and related individual components with 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).

B. Preconditions

3. Using an MFF has six preconditions: (i) road map, (ii) policy framework, (iii) strategic context, (iv) investment program, (v) financing plan, and (vi) undertakings.

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[3]
   (i) the main challenges and operating conditions on (a) cost recovery, (b) resource use, (c) sustainability, (d) efficiency, (e) competition, and (f) transparency; and
   (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.

[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.

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[5] and nonphysical[6] investment interventions and their sequencing, as well as the corresponding resources needed.[7]

8. **Financing plan.** Separate financing plans are prepared for the MFF and the individual tranches. Where feasible, financing plans should specify amounts, timing, and financing sources.[8]

9. **Undertakings.** MFF undertakings have a broad 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.

C. 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.[9] The FFA is negotiated with the client and signed by the relevant country director or the senior sector director generally before Board consideration (endnote i).[10]

---

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 developing member country have agreed to cover.

5 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.

6 Nonphysical investments address sector policy, thematic, and institutional issues (such as institutional capacity development, governance, gender, private sector development, regional cooperation, safeguards, and social development). Institutional 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.

7 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).

8 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.

9 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 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.

10 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).

D. Tranches under a 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 partial risk guarantees),[11] and cofinancing administered by ADB.[12] 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.[13]

E. Procedures, Decision-Making Criteria, and Filters

13. **Concept clearance.** ADB prepares a concept note 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 comparison of 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 a multitranche financing facility.** 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 and the date by which the last tranche under the MFF must be approved (endnote ii).[14] All tranches under an MFF are expected to be approved within 8 years from the Board's approval of the facility. Each MFF will include risk mitigation measures to better manage implementation risks and minimize the need for changes to an MFF (endnote ii). Each MFF will also include a facility design and monitoring framework (DMF) (endnote i). 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.[15] The legal agreement for the first tranche is executed within 12 months of Board approval of the MFF; otherwise, the validity of the MFF approval lapses.[16] Each tranche involves due diligence on technical, commercial, legal, regulatory, financial, economic, social, gender, governance, fiduciary oversight, capacity, procurement, anticorruption, implementation, safeguards, and other matters. If each tranche will have its own unique outputs, a tranche DMF will be prepared for each tranche and used to monitor

[11] ADB. 2007. Credit Enhancement Operations. *Operations Manual*. OM D9. Manila.
[12] An MFF does not support equity financing (endnote i).
[13] ADB. 2023. Allocation of Concessional Resources. *Operations Manual*. OM A3. Manila; and ADB. 2022. Lending and Grant Policies (Concessional Assistance). *Operations Manual*. OM D2. Manila.
[14] ADB. 2023. Sovereign and Sovereign-Guaranteed Financing. *Operations Manual*. OM D11. Manila. 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.
[15] 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).
[16] Extension of validity requires Board approval (endnote i).

and report tranche progress.[17] Second and subsequent tranche reports will provide the status of progress on the facility undertakings and describe how lessons from implementation of prior tranches are incorporated into the proposed subsequent tranche design (endnote ii). 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).[18] The Board will be notified of subsequent tranches before submission to the President. Projects classified as *category A* for environmental impact in a subsequent tranche will be submitted to the Board for its decision as to whether to authorize the President to convert the tranche into loans, guarantees, or cofinancing administered by ADB (endnote ii).[19]

16. **Changes in the multitranche financing facility during implementation.** Board approval is required if a change in the MFF during its implementation 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 investment types contemplated under the investment program (endnote i). The Board will approve the addition of a new tranche or other changes if they result in a change in the MFF as specified above (endnote ii).

17. **Additional financing to the multitranche financing facility.** When the funding requirements exceed the MFF amount, Board approval is required to increase the MFF amount following the *Operations Manual* section on additional financing (OM H5) (endnote iii).

18. **Additional financing from the multitranche financing facility.** 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 and the due diligence requirements for additional financing (endnote i).[20]

F. Reporting and Monitoring

19. Every year, ADB prepares a consolidated annual report (endnote i), which provides the following information:

- (i) data on progress made on each physical and nonphysical component;
- (ii) risks, issues, and actions being taken to mitigate the risks and resolve the issues;
- (iii) DMF updates;
- (iv) status of compliance with undertakings;

[17] For example, separate tranche DMFs will not be required for MFFs supporting large stand-alone projects as the facility DMF will report on the progress of all outputs.
[18] The President will be deemed to have approved the first tranche following the Board's approval of the facility.
[19] A tranche report is prepared and circulated to the Board on a no-objection basis with at least 21 calendar days between circulation of the report and Board consideration. The President will be deemed to have approved the subsequent tranche once the Board provides its no objection to converting the tranche.
[20] 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).

(v) any changes in circumstance or material facts relating to the investment program or plan; and
(vi) approval of ADB's administration of cofinancing.

G. Disclosure

20. The following documents, among others, will be 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.[21] ADB also makes the periodic financing requests available to interested parties on request (endnote i).

Bases

i ADB. 2008. *Mainstreaming the Multitranche Financing Facility*. Manila (R121-08).
ii ADB. 2022. *Enhancing the Asian Development Bank's Multitranche Financing Facility.* Manila (R1-22).
iii ADB. 2010. *Additional Financing: Enhancing Development Effectiveness*. Manila (R255-10).

[21] ADB. 2018. *Access to Information Policy*. Manila.