

MULTITRANCHE FINANCING FACILITY AS THE PREFERRED MODALITY

1. The revision of the city master plan fits the Asian Development Bank's (ADB) approach to infrastructure development in Ulaanbaatar and allows ADB to enter into a long-term commitment with the Municipality of Ulaanbaatar (MUB) and development partners, ensuring a comprehensive approach to *ger*¹ areas redevelopment. On account of its flexibility and ability to finance investments sequentially as each tranche becomes ready for implementation, the multitranche financing facility (MFF) allows the MUB to focus on implementation and strengthen its capacity and the institutional framework. With the certainty that the basic investments will be covered, the MFF will also help the MUB to program its investment and private sector participation more efficiently in the targeted subcenters by the program and in *ger* areas.

2. The MFF is well suited for this investment as it is the most effective modality to (i) maximize and measure project results in each targeted area; (ii) enable feedback, learning, and incorporation of lessons in subsequent tranches; and (iii) blend capacity development and infrastructure provision. The MFF will enable the client to (i) programmatically implement a structured roadmap that takes into consideration the city's economic, social, and environmental needs; and (ii) blend instruments that optimize private and public interventions and leverage multi-stakeholder finance. **Tables 1** and **2** provide a comparative assessment of the MFF modality as compared with other financing modalities that may be applicable to this type of project.

Table 1: Modality Comparative Matrix

Choice of Modalities	Investment Financing	Project Readiness	Capacity Development	Programmatic Approach	Policy Framework Implementation
Standalone project	H	L	M	L	M-L
Sector development program	M	L	M	H	H
MFF	H	H	H	H	M

H = high, L = low, M = medium, MFF = multitranche financing facility.

Table 2: Assessment on Use of Other Lending Modalities

Feature	Benefit of MFF over other modalities
Project readiness	The MFF will enable the progressive approval of financing tranches corresponding to packages for different subcenters. Project or sector modalities could only secure this if all packages for all subcenters were known and prepared in advance, which is not possible in the context of experimenting a suitable community-led redevelopment process.
Capacity development	As a new developmental approach, MFF will enable to incorporate lessons learned from ongoing previous tranches and gradually enhance the capacity of the MUB in the investment program. Other modalities, while enabling the provision of capacity building capacities, do not have the same level of reflective and cumulative capacity regards to the knowledge and the capacity development.
Programmatic approach	The MFF will allow reducing over-reliance on stand-alone project approaches that often involve repetitive and cumbersome business processes and opens the way for more structured cofinancing. It provides critical mass, predictability, and continuity to clients. MFFs require framing of the program within a policy and strategic framework. The matching road map, defines the program of physical and non-physical investments that is to be attached to it. Only sector development programs can provide an equivalent.
Policy reform	MFFs provide the necessary policy and institutional framework necessary to drive change. Project type (including project, sector and additional lending) rely only on covenants and have limited leverage.

ADB = Asian Development Bank, CPS = country partnership strategy, MFF = multitranche financing facility.

Source: Asian Development Bank assessment.

¹ Named after *ger* tents.