COMPARISON OF FINANCING MODALITY

Issues	Financing Modality		Remarks
	MFF	**Project Loan**	
Financing is for a number of projects in various areas in Sri Lanka. The Government of Sri Lanka requested ADB to finance the entire $900 million investment for the project.	MFF can finance slices of long-term contract package in a number of projects, thereby reducing the individual commitment of ADB per tranche and reducing commitment charges for the government. ADB financing will be available when required to finance the project according to the project implementation plan.	The possible size of a stand-alone project loan at this stage is less than the financing requirement, as the needs for investment exceed ADB's annual resource allocation for Sri Lanka. Hence, the investment has to be split into several project loans, financing only projects in particular areas or procurement packages. The implementation period and benefits of the project will be delayed.	Time-sliced MFF enables ADB to exercise flexibility by aligning the provision of separate financing tranches with implementation progress. This reduces ADB resource allocation as well as commitment charges to be paid by the government and ensures project completion and benefits from the project in the shortest possible time.
Long-term support and engagement in the road transport sector	MFF is aligned with the CPS and COBP. The sector roadmap is aligned with the transport sector strategy of the government. ADB can focus on rural road development with a series of MFFs. The long-term relationship will help foster continuous policy dialogue and capacity development support in addition to physical investments.	A stand-alone project loan limits its support to smaller scale intervention and policy implementation, which are not aligned with the government's strategy to increase connectivity with social and economic centers to support inclusive economic growth, as well as the transformation of Sri Lanka into a middle income country.	MFF enables ADB to support implementation of the sector roadmap though a long-term partnership with the government and to combine infrastructure investments with policy dialogue and sector reforms.
Policy dialogue and coordination in the transport sector	MFF provides a platform for continuous policy dialogue with the government on a long-term basis.	Possible, but limited to short-term interventions.	MFF can facilitate policy dialogue on a more stable and longer-term basis.
Effective monitoring of implementation	MFF with time-slicing approach provides, in the timing of the periodic financing requests, opportunities to effectively monitor implementation of MFF by creating a platform to address implementation issues with the involvement of key stakeholders.	Possible, but less opportunities and leverage once the project is approved.	MFF modality is preferred as periodic financing requests may be used as leverage to involve key stakeholders in solving critical implementation issues.

Issues	Financing Modality		Remarks
	MFF	Project Loan	
Operational flexibility at country level	MFF with time-slicing approach allows aligning the financing needs of the project with the limited country resource allocation without delaying the completion of the project.	The limited country allocation would only allow financing projects in particular areas or procurement packages with limited benefits and an extended completion period for the entire project. Very large stand-alone loans would limit access of other sectors to ADB financing.	MFF modality is preferred as it provides flexibility for long-term sector development, faster project implementation, and more efficient use of limited resources to the country's benefit.
Transaction costs and financial charges	As the subprojects have been fully appraised, transaction costs for ADB are similar to those for a series of stand-alone projects required to finance the full investment cost, which would delay however project completion and return-on-investment, hence the achievements of the full benefits from the project. Financial charges for the government are lower as the commitment charge is only applicable to the loan amount committed for each tranche, not for the entire facility.	The transaction cost for a stand-alone project loan would be lower than for an MFF, including multiple tranches. However, due to restriction in the resource allocation to the country, the project would have to be financed by a series of project loans with similar transaction cost than an MFF and longer completion period of the entire project. A stand-alone project loan will incur higher commitment charges, as the commitment charge would apply to the entire financing cost.	MFF modality is preferred. The transaction cost is similar compared to a series of project loans financing short sections of the project. By time-slicing the project, it will be completed earlier, and the benefits from the project will be achieved earlier. The commitment charges to be paid by the government for the individual tranches are lower than for a large scale stand-alone loan to finance the entire project.

ADB = Asian Development Bank, COBP = country operations business plan, CPS = country partnership strategy, MFF = multitranche financing facility.
Source: Asian Development Bank.