

APPLICABILITY OF THE MULTITRANCHE FINANCING FACILITY

Issues	Comparison		Remark
	Multitranche Financing Facility (MFF)	Standalone Project	
Applicability of the MFF Financial Intermediary Modality	The MFF financial intermediary (FI) lending modality is particularly well suited for financial intermediary interventions which provide long-term funding to public-private partnership (PPP) infrastructure projects. ¹ These PPP interventions are typically developed in a phased manner based on project implementation requirements. The MFF modality allows the borrower, Infrastructure Development Company Limited (IDCOL), to onlend financing for subprojects based on readiness criteria including finalization of risk-sharing arrangements, readiness of engineering procurement and construction, and phased release of equity. The disbursement to a subproject can take place through multiple tranches with <i>time-slicing</i> given the typical characteristic of staggering of payments, and thereby providing IDCOL the flexibility to plan cost effective disbursements of subprojects.	A standalone, larger loan would not allow the company to adjust loan tenors, terms, and conditions as necessary to better match its onlending arrangements, when the sector grows over time. A standalone loan with the same implementation period of 6 years as the MFF would also increase IDCOL's commitment charges to ADB.	The proposed MFF combines longer term funding comfort with the flexibility in terms of timing and adjustable conditions for each loan tranche.
Strategic context	ADB's strategic thrust in the infrastructure finance space is outlined in the draft country partnership strategy 2016–2020 ² for Bangladesh which stresses the need for support of private sector-led infrastructure development and PPPs. This is in line with the Bangladesh's Seventh Five-Year Plan (FYP) 2016–2020 which focuses on accelerating the growth rate of the economy and reducing poverty by substantially boosting private sector investment and developing infrastructure. In particular, it emphasizes the need to increase infrastructure development to 8% of gross domestic product	A standalone project does not have an equivalent long-term value proposition for either the borrower or the sector.	The infrastructure and renewable energy sector in Bangladesh still requires substantial government support to scale up. With a long-term partnership with IDCOL, ADB could potentially help develop enabling policies environment, the strategic focus and the regulatory environment of the sector in the future.

¹ ADB has implemented a number of similar financial intermediation loans to support infrastructure finance and renewable energy development, including ADB. 2013. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for Accelerating Infrastructure Investment Facility in India. Manila. (MFF 0077 for \$700 million approved on 27 September); and ADB. 2014. Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to India for Clean Energy Finance Investment Program in India. Manila. (MFF 0087 for \$500 million approved on 30 October).

² A new ADB country partnership strategy 2016–2020 is currently under preparation.

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	(GDP) by 2020, with substantial participation of the private sector through PPPs. In this context, the Government of Bangladesh (the Government)'s initiative to promote infrastructure investments through comprehensive policy, regulatory, market, and financing support will serve as the program's overarching policy framework.		
Strategic partnership	An MFF modality responds better to the client needs by matching IDCOL's medium- to long-term business plan with the availability of long-term funds through the proposed intervention. The proposed phased MFF-FI modality and the associated technical assistance (TA) implementation would serve as part of the Government roadmap to achieve the 8% of GDP investment target by 2020.	A standalone project has a shorter time horizon and faces difficulties to scale up financial institution support for infrastructure development in Bangladesh.	ADB intends to continue its partnership and collaboration with IDCOL to assist the company transforming itself into a premier infrastructure finance company that can stand on its own feet, attract strategic investors that can add value, and raise long-term funds from the market on the basis of its balance sheet rather than based on the support from the Government. Through the proposed intervention, ADB builds on its excellent relationship with IDCOL.
Capacity development	The proposed TA under the Third Public-Private Infrastructure Development Facility (PPIDF 3) will allow IDCOL to adopt a long-term vision and operational strategy based on commercial principles through an effective organization. While IDCOL's present capacity is commensurate to the current level of its operations, it might not be equipped to cope with additional and more complex activities, especially relating to large infrastructure subprojects. To address these constraints, the proposed TA will focus on the following areas: (i) help IDCOL strengthen its subproject assessment, pricing and financial modeling capabilities; (ii) initiate its own marketing program to source potential business opportunities; (iii) improve its risk	A standalone project would be more restricted to provide the needed phased and sustained institutional development assistance to achieve the desired outcomes.	The proposed TA to IDCOL under the MFF is considered crucial in terms of its long-term impact on the company's transformation into a self-sustainable world-class finance firm.

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	<p>management capacity; (iv) expand its transaction advisory services; (v) assist IDCOL in raising long-term funds from the (onshore and offshore) markets based on the strength of its balance sheet; and (vi) prepare the company to enter into strategic partnerships with international companies and organizations involved in infrastructure investments, advisory services, and renewable energy.</p> <p>Once the new financing modalities gain traction and IDCOL is able to more effectively use its balance sheet to support its lending operations, then ADB will disengage from its active sovereign collaboration with IDCOL.</p>		
Transaction cost	The proposed MFF maps out a clearly defined 6-year operational and funding strategy, and shortens subsequent project preparation time and reduces the ADB processing transaction cost.	A standalone project would incur higher transaction cost by processing 2–3 separate loans over the same 6-year period.	
Flexibility to accommodate possible changes in ADB requirements	An MFF has a built-in flexibility to accommodate any possible change in ADB's requirements and/or guidelines in the sequent tranches.	No such flexibility is provided in a standalone project loan.	
Market demand	Although the Government is fully committed and supportive of infrastructure development in Bangladesh, the medium- to long-term outlook is uncertain as infrastructure projects have a very long gestation period, are difficult to structure, are sensitive to political uncertainties, and require long-tenor funds. An MFF modality addresses the potential market uncertainty and provides the necessary flexibility to adjust to any market changes in the future.	A standalone project would not be able to address a phased long-term sector development plan to develop the infrastructure market, particular when short- to medium-term outlook will depend on an a number of factors that are beyond the control of the implementing agency and subproject sponsors.	The project will incorporate a \$5 million institutional and market development TA to, among others, develop the market and identify pipeline subprojects. Tranche 2 and 3 will primarily provide the funding for the deal pipeline developed under the initial market development initiative funded by tranche 1.
Disbursement	An MFF ideally has a quick turnaround time between tranches, is more flexible, and responds better to market demand and therefore disbursement.	No such flexibility is provided in a standalone project loan.	

Source: Asian Development Bank.