Learning Curves
August 2013
Independent Evaluation ADB

Real-time Evaluation of ADB's Multi-tranche Financing Facility

The study supports the continuation of the modality as one instrument in ADB's tool kit, on the basis of its attractiveness to clients. The study also stresses recommendations for stronger action to direct the instrument towards enhancing the development impact of the operations.

The multi-tranche financing facility (MFF) was introduced in 2005 to strengthen ADB's capacity to mobilize development finance and knowledge for its developing member countries (DMC) by reinforcing the flexibility and client orientation of its financial products, and to make ADB more compatible with existing and evolving market practices. The MFF modality facilitates the sequential and efficient programming of a set of individual loan tranches in a sector and country. It requires Board approval for the total investment program, but removed the need for the processing of each such tranche for ADB Board approval. Following a 3-year pilot period, the MFF modality was mainstreamed in mid-2008 by the ADB's Board of Directors. At the time, the Board noted some lapses in due diligence and risks to implementation and accountability, and asked the Independent Evaluation Department (IED) to evaluate, in 3–4 years' time, the MFF modality in the context of its development effectiveness.

The Evaluation

Pursuant to the ADB Board's request, IED carried out a Real-time Evaluation (RTE) of ADB's MFFs. The study covered 66 MFFs and 126 tranches with a combined approved amount of nearly $32 billion as of end December 2011. During the study period, very few MFF programs had been completed. As such, the RTE was not intended to provide a final judgment, but as a review of the experience in design and implementation, to obtain feedback for possible mid-course corrections. Comparisons of MFF with other long standing modalities (e.g., program loan, sector loan) will be possible after a few years when a sufficient number of MFF investment programs have been completed and self-evaluated. The RTE study report was approved by the Development Effectiveness Committee (DEC) in January 2013.

Key Findings

The evaluation identified several issues that need to be addressed to improve operational efficiency and development effectiveness associated with the modality.

Organizational Effectiveness. The modality was intended to enhance ADB's organizational effectiveness by saving staff resources for processing of repetitive tasks at the tranche level, leaving more time for ADB staff for policy dialogue during implementation. Available data on elapsed time and level of effort for processing, however, do not provide clear evidence of savings. There is also no indication of greater staff continuity for preparation, processing, and implementation of MFFs.

Cofinancing. The MFF modality is potentially more conducive to cofinancing than other lending modalities and instruments, as it offers clients greater certainty and up-front agreement for long-term funding without the accompanying commitment charge payment obligations. The lack of adequate information and data on cofinancing however, does not allow an analysis of the levels of cofinancing achieved through the MFF modality. Nevertheless, cofinancing has been mentioned or considered in the approval documents of most MFF investment programs.

Flexibility. MFFs are used highly flexibly over long utilization periods that average about 8 years. This flexibility enabled by MFFs is one of the key reasons for their increased acceptance and support in many DMCs. The lack of clarity—at least until 2011—regarding the nature of scope changes that require Board approval, particularly on what constitutes a major or minor change at the tranche level, has resulted in a situation where most changes in tranches have been categorized as minor changes that are approved at the level of the department heads.

QUICK LINKS

Real Time Evaluation of ADB's Multi-tranche Financing Facility (Main Report)
www.adb.org/documents/real-time-evaluation-study-multitranche-financing-facility

ADB Management Response
www.adb.org/documents/management-response-special-evaluation-study-real-time-evaluation-multitranche-financing-f

Chair's Summary of the Development Effectiveness Committee (DEC)
www.adb.org/documents/chairs-summary-committee-discussion-17-january-2013

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In addition, the additional financing mechanism that is allowed within the MFF modality may also have discouraged attention to proper tranche design or careful cost estimation. The clarifications introduced in December 2011 seem to have reduced the scope for unwarrantedly excessive flexibility.

Up-front Due Diligence. Up-front assessments of MFF prerequisites need to be comprehensive and rigorous. Sector strategies, road maps, or policy frameworks are not of the requisite quality in more than 20% of the MFFs (and in some country groups even more than 75%) and reflects the weak institutional capacities that need to be addressed up front. Available documentation of MFFs does not establish a link between the findings of upfront institutional capacity due diligence work and the design of nonphysical investment components.

Project-level Due Diligence. In some cases investigated, technical and economic due diligence seems not to have been conducted rigorously. Nearly 50% of all second and subsequent tranches approved thus far, across all MFF investment programs, have been approved in the December bunching season, when Management may not have sufficient time for review and oversight. The study also noted that the Economics and Research Department (ERD) reviews the economic analysis of tranche projects at a late stage, when the periodic financing report is nearing finalization. ERD is also not required to comment on scope changes of tranche projects.

Self-Evaluation. By design, the MFF modality allows for the approval of a subsequent tranche before closure or completion of a previous tranche. As a consequence, subsequent MFFs and tranches may not benefit from the lessons of previous MFFs and tranches. Moreover, in some countries where ADB supports multiple MFFs with the same clients, the second MFF was approved before the closure of the first MFF. However, as experience with MFF investment programs and tranches has accumulated, several departments have noted that some lesson learning is now taking place, and the MFF approach is evolving as a consequence.

Lending Planning and Financial Projections. ADB is permitted to discontinue the MFF in midstream under certain conditions, such as if the client does not meet the conditions described in the legal agreements. However, it appears that, in spite of situations where some binding commitments are not met, being cognizant of reputational risk, ADB Management has preferred not to discontinue any MFF program thus far. Consequently, the rising number of MFFs adversely locks up future finances, crowds out other lending, reduces headroom and impacts ADB's ability to manage contingencies.

Key Recommendations

Recommendation 1: Apply the standards for the needed quality of MFF prerequisites for MFF investment programs in countries and sectors as designed at the time of mainstreaming. Future MFF programs should be consistent with the provisions of the relevant Operations Manual and that the comparative advantages of the MFF modality vis-à-vis other lending modalities are highlighted at the concept stage.

Recommendation 2: Manage the use of flexibility during the MFF implementation period without compromising, or with the strengthening of, the benefits of the MFF modality. It is important to institute systems and procedures that allow for sufficient flexibility for DMC governments and clients, without compromising on other intended benefits of the modality.

Recommendation 3: Conduct facility-wide mid-term reviews of ongoing MFF programs and formal reviews at any time deemed appropriate. It is currently not required, but it is important to institute a system of one or more facility-wide formal reviews during the term of the MFF to facilitate Management decision making and reported to the Board in a timely manner.

Recommendation 4: Regularly monitor MFF portions not converted to tranches and take necessary steps that will help ensure prudent lending planning and financial projections. It would be useful for ADB to devise criteria for the cancellation, discontinuation, or postponement of tranche approval. Management can also initiate suitable awareness-creation activities, if necessary.

Recommendation 5: Ask for regular submission of necessary documentation from clients and make all relevant documentation and data on implementation of an MFF immediately accessible within ADB. It needs to maintain adequate record keeping and provide easy access to all relevant documentation not only for MFF but also for other modalities.

Feedback

ADB Management welcomed the study as a way to take stock of progress in implementing the MFF. Management agrees with all study recommendations except the one regarding conduct of facility-wide mid-term reviews of ongoing MFF programs.

The Chair's Summary of the Development Effectiveness Committee (DEC) of the Board likewise welcomed the RTE study. The DEC noted that since MFF constitute almost a third of ADB's resource envelope, the quality of projects will have a considerable impact on the effectiveness of ADB's operations. Some DEC members were concerned that the facility locks in resources leaving little room for other projects. Since ADB does not expect any significant increase in its resource envelope in the near future, this factor should be considered in partnership strategies and business plans of countries which use the MFF extensively. DEC members agreed that a review of the MFF in 2014 or 2015 should be conducted.

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