

Business Plan of

# TOWN DEVELOPMENT FUND

FY 2020/21-2023/2024 (2077/78- 2080/81)

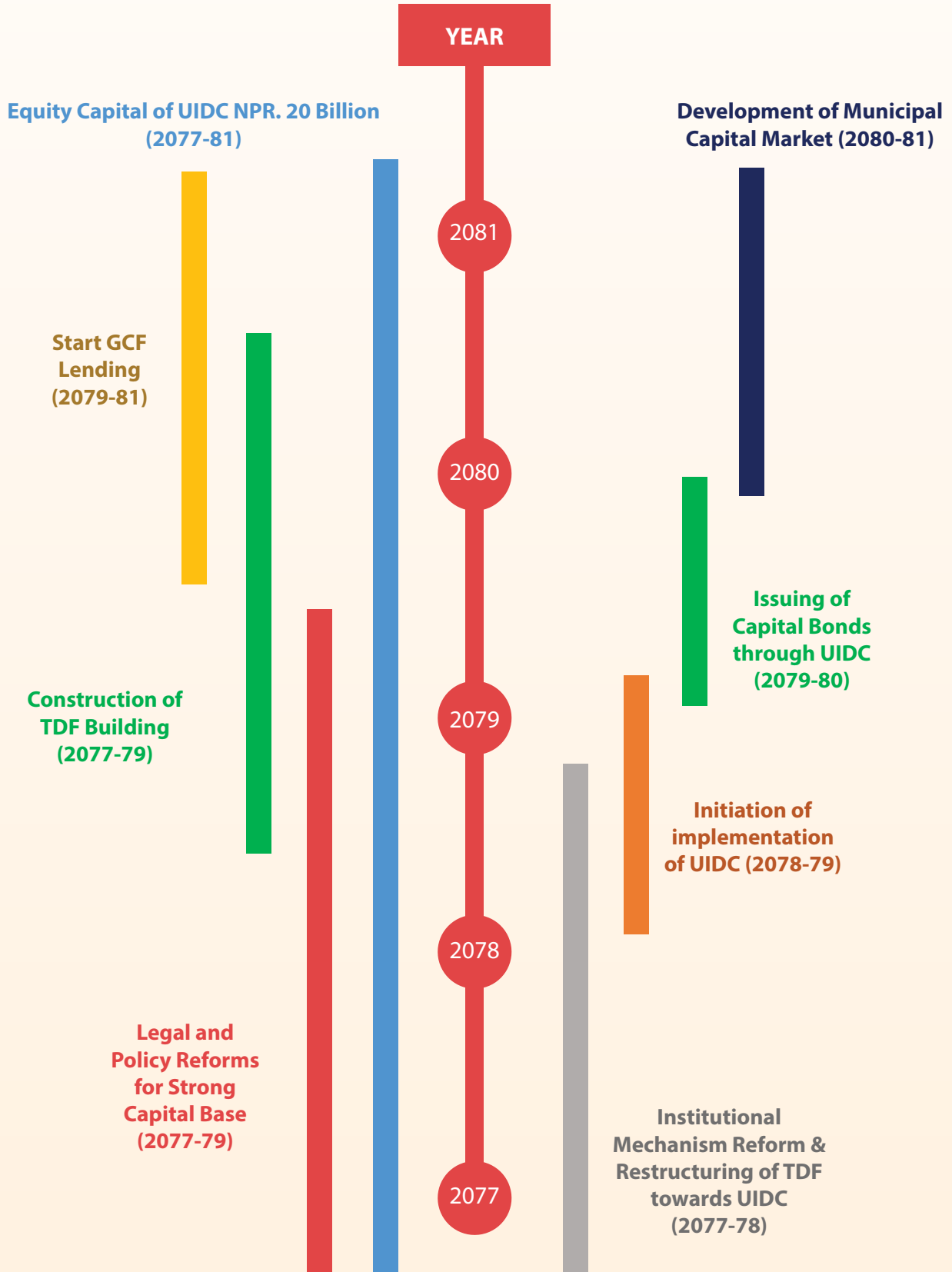
## 2020-24 BUSINESS PLAN

*Business Plan for transforming TDF into  
Urban Infrastructure Development Corporation*



# TOWN DEVELOPMENT FUND

## BUSINESS PLAN SCHEDULE



# TOWN DEVELOPMENT FUND

Mid Baneshwor, Kathmandu

## BUSINESS PLAN

FY 2020/21-2023/2024 (2077/78-2080/81)

Business Plan for transforming TDF into  
Urban Infrastructure Development Corporation





Government of Nepal  
**MINISTRY OF URBAN DEVELOPMENT**



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## Message



It's my great pleasure to know that the Town Development Fund (TDF) is going to publish four year (2020/21-2023/24) Business Plan. I believe that the Business Plan will be a milestone document for the successful transformation of the TDF.

In our context, most of the newly formed municipalities are rural in nature and there is a huge infrastructure and financing gap in those municipalities. Mobilization of sources along with alternative financial resources, exploration of innovative tools and introduction of leveraging of financing may prove fruitful to the aforesaid financing gap. TDF possess huge potential to prove as a leading sustainable financial intermediary in the country. Its role in innovations and exploration will also be potential once its proposed institutional transformation is happened in place.

TDF has approved annual Policy, Program and Budget for the FY 2020/21 for implementation as per the strategies and setout targets in the Business Plan. The Business Plan will be reviewed on an annual basis as required and will be updated accordingly.

I would like to congratulate the Executive Director and TDF management team for active involvement in the preparation of this Business Plan and extend my best wishes for its successful implementation. I would also take this opportunity to request all stakeholders to provide necessary support to TDF for its successful implementation. I hereby express my full commitment for the successful execution of this Business Plan.

Thank You

Dr. Ramesh Prasad Singh  
Secretary, Ministry of Urban development  
&  
Chairman, Town Development Fund





# Town Development Fund



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## Foreword

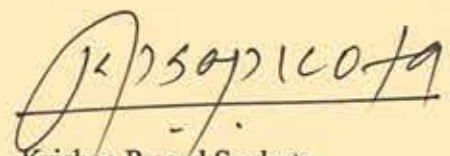


The Town Development Fund (TDF) is in the process of transforming the current institutional frame of TDF into the Urban Infrastructure Development Corporation (UIDC). In this context, TDF has come up with a 4-year Business Plan (FY 2020/21- 2023/24) with the vision to emerge as the leading sustainable financial intermediary of the country for the urban infrastructure development.

The Business Plan has been prepared with due consideration to fulfill the gap between demand and supply side of financial resources required for the development of much needed urban infrastructure and also to generate necessary financial resources for capacity development of local level. This Business Plan has proposed and envisioned clear vision, mission, objectives, internal and external strategies and business targets including institutional reform action plan aligned with the national targets. TDF has also proposed mobilization of alternative financial resources, application of innovative financial tools, and credit rating for the issuance of infrastructure or municipal bonds. Similarly, to obtain the accreditation from Green Climate Fund (GCF) and develop international networks with relevant institutions for leveraging infrastructure finance. Hence, the proposed transformed role of TDF will have a strong capital base owned by the federal and sub national government financial institutions and various other development partners.

In order to assure the target set forth in the Business Plan; risk assumptions and mitigation steps as formulated in the Business Plan will be rigorously applied. Also the monitoring and evaluation indicators set out with verification procedures in this Business Plan will be thoroughly implemented. Besides, for the successful implementation of this Business Plan, TDF also aims to be the Debt Administrator for the infrastructure development of Nepal.

Hence, I strongly believe that TDF will successfully implement this Business Plan and achieve its set targets with the combined support of GoN, stakeholders, donors and clients. I am grateful to the Board of Directors of TDF for endorsing this Business Plan. I would like to thank all my colleagues of TDF for their contribution in preparing this Business Plan.

  
Krishna Prasad Sapkota  
Executive Director





## EXECUTIVE SUMMARY

A historic transformation in the governance architecture is extensively expected to drive Nepal into a new era of rapid economic development. Under the 2015 Constitution, the country's transition from a unitary state into a federal system has generated more space and scope for the responsibilities of local governments regarding governance and service delivery. Similarly, within the federal system, each tier of government has been provided with the fiscal autonomy and authority to generate, collect and mobilize resources from various sources. This increased autonomy and accountability is expected to create stronger organizational and financially viable sub-national governments with the impetus for development to flourish at the local level. However, both the lack of technical capacity and financial resources of local level governments are the major impediments, when it comes to realizing the potential of federalization and decentralization in Nepal.

Currently, over 60% of Nepal's population resides in municipalities, where infrastructure is inadequate and development financing needs are insatiable. Under the new federalism system, sub-national governments have greater fiscal autonomy and authority to address infrastructure deficits, including the right to borrow funds to meet expenditure needs that cannot be met through their own source of revenues and inter-governmental fund transfers (IGFTs). Therefore, municipalities are under pressure to maintain fiscal gap and to strengthen their borrowing capacity. Furthermore, municipalities lack technical experience in developing bankable projects that have the potential to expand municipal earnings and create transformative impact at the local level. On the supply side, municipalities are also struggling with limited access to debt on a repeated and demand-driven basis.

According to the estimates from the National Urban Development Strategy (NUDS), a total of 11.4 billion USD (8 billion for 133 new municipalities and 3.4 billion for 58 old municipalities) is required to meet the existing infrastructural deficit. Now, considering the changing context with additional investment needs from 2016-2031, a total of NRs. 4,868.82 billion is required, of which 2,921.29 billion is considered as Priority Investments for urban infrastructure development. For this purpose, significant work and resources are needed not only to develop the sub-national sector (the demand side) but also the financial sector (the supply side). Besides, a robust sub-national financing system must be developed in parallel with the fiscal system to facilitate the investment needs of local governments.

For the past 32 years, Town Development Fund (TDF) has served as the financial intermediary and provider of technical and financial resources (the supply side) to support urban infrastructure development projects for sub-national governments in Nepal. However, TDF has yet to build its own internal capacity to access capital markets for addressing its growing portfolio. That requires TDF to build a pipeline of bankable projects, expand blended financing structures to municipalities by innovative financial tools, and take a lead for scaling of the financing system for sub-national governments. To address this need, the Government of Nepal has announced to transform TDF into Urban Infrastructure Development Corporation (UIDC) with a widened mandate and increased capital structure in the context of the emerging national development paradigm.

This Business Plan (2020-2024) has set a target to Invest NRs. 20 billion, loan recovery will be reached to 95 % from the 62.24 % and Equity Capital will be NRs. 20 billion raised from Provincial and Local Government by FY 2023/24. With this business, the institution aims to improve the capacity of sub-national governments in Nepal to access debt service including financing, non-financing and domestic capital for financing infrastructure development and service delivery at the local level. And, this Business Plan designates a first step on its journey to becoming the UIDC as a sustainable financial intermediary.



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## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
AIIB	Asian Infrastructure Investment Bank
AMA	Accreditation Master Agreement
CBOs	Community Based Organizations
CEO	Chief Executive Officer
CIT	Citizen Investment Trust
DPs	Development Partners
DPR	Detailed Project Report
DWSSM	Department of Water Supply and Sewerage Management
EO	Executive Officer
EPC	Engineering, Procurement and Construction
EPCF	Engineering, Procurement, Construction and Finance (EPCF)
EPF	Employee Provident Fund
EU	European Union
FCGO	Financial Comptroller General Office
FG	Federal Government
FMIS	Financial Management Information System
FY	Fiscal Year
GCF	Green Climate Fund
GDP	Gross Domestic Product
GiZ	German Development Corporation
GoN	Government of Nepal
GTZ	German Technical Cooperation
IFC	International Finance Corporation
IFIs	International Financial Institution
IGFT	Inter Governmental Fiscal Transfers
OIBN	Office of Investment Board of Nepal
I/NGOS	International Non-Governmental Organizations
IPT	Integrated Property Tax
ISO	International Organization of Standardization
Kfw	German Development Bank
KPI	Key Performance Indicators
KUKL	Kathmandu Upatyaka Khanepani Limited
KVDA	Kathmandu Valley Development Authority
LBs	Local Bodies
LBFAR	Local Bodies Financial Administration Rules
LBFC	Local Bodies Fiscal Commission
LGs	Local Governments
LMBIS	Line Ministry Budget Information System
LRT	Local Road Networks
LSGA	Local Self Governance Act
LSGR	Local self-Governance Regulation
MCPM	Minimum Conditions and Performance Measures
MDF	Municipal Development Fund
M&E	Monitoring and Evaluation
MFF	Municipal Financial Framework

MIS	Management Information System
MoF	Ministry of Finance
MoFAGA	Ministry of Federal Affairs and General Administration
MOU	Memorandum of Understanding
MoUD	Ministry of Urban Development
NEA	Nepal Electricity Authority
NFI	National Financial Institutions
NGOs	Non-Governmental Organizations
NHC	Nepal Housing Company
NNRFC	National Natural Resources and Fiscal Commission
NPC	National Planning Commission
NSEB	Nepal Security Exchange Board
NUDS	National Urban Development Strategy
NUP	National Urban Policy
NTC	Nepal Telecom
NUP	National Urban Policy
NWSC	Nepal Water Supply Corporation
OSR	Own Source Revenue
PGs	Provincial Governments
PMO	Project Management Office
PPCP	Public-Private-Co-Operative/Community Partnership
PPP	Public Private Partnership
SOP	Standard operating Procedure
STIUEIP	Secondary Town Integrated Urban Environmental Improvement Project
STWSSSP	Small Towns Water Supply and Sanitation Sector Project
SWOT	Strength Weakness Opportunity Threat
TACS	Technical Assistance and Consultancy Services
TDC	Town Development Committee
TDF	Town Development Fund
TDP	Town Development Program
UEIP	Urban Environment Improvement Program
UGDP	Urban Governance and Development Program
UIDC	Urban Infrastructure Development Corporation
UNCDF	United Nations Capital Development Fund
UNCHS	United Nations Centre for Human Settlements
UWSSSP	Urban Water Supply and Sanitation Sector Project
WB	World Bank
WSSP	Water Supply and Sanitation Project
WUAs	Water User's Association
WUSCs	Water Users and Sanitation Committees

## CHAPTER 1: INTRODUCTION

### 1.1 Background

Town Development Fund (TDF) was established as TDF Board in 1989, by the Formation Order 1988, under the Development Board Act, 1956. TDF was set up for providing financial and technical assistance to the Town Panchayats for their development. Gradually, realizing a need for an autonomous financial intermediary institution, TDF was restructured as an autonomous institution under the Town Development Fund Act, 1997. Since its establishment, TDF has received loans and grants from the Government of Nepal (GoN), most often from contributions originating from the financial assistance of development partners (DPs).

When it comes to international donor agencies, the German government has been a steadfast and committed partner, providing grants and technical support through the German Development Bank (KfW) and German Development Agency (GIZ). Similarly, TDF also receives grant support from the Asian Development Bank (ADB) and the World Bank (WB). More importantly, TDF has worked exclusively with urban local governments and the institution hasn't procured any financial liabilities directly from the financiers.

### 1.2 Objectives

As per the Act, the main objectives of TDF are as follows:

1. To provide essential financial and technical support to the institutions related with town development.
2. To conduct or cause to conduct works necessary to keep town neat and clean.
3. To conduct or cause to conduct different kind of revenue generating and basic social infrastructure projects.
4. To conduct or cause to conduct objective-oriented research works to find out possible solutions to problems related to the development of town and the necessary improvements for its development.

### 1.3 Constitution of the Board

TDF Board constitutes of Secretary of Ministry of Urban Development (MoUD) as the chairperson, together with representative first class officers from Ministry of Federal Affairs and General Administration (MoFAGA) and Ministry of Finance (MoF); including seven either mayors or deputy mayors (at least 3 female) each one representing the municipalities from seven provinces nominated by the GoN, two experts (one economist/finance expert and the other technical expert) nominated by the Board, three experts (at least one female) nominated by MoUD and the board also includes Executive Director as the member secretary recruited through an open competition for a four-year period.

### 1.4 Organizational Mandate

The TDF's Act 1997, has given autonomy to this institution to function as a financial intermediary institution for the development of urban infrastructures in Nepal. TDF's Act has empowered this institution for mobilizing financial resources from various government and non-government organizations, and also from other national and international financial institutions. The financial sources can be received either as a loan or grant. TDF can also raise funds by issuing bonds or debentures and through the arrangement of consortium or bridge financing with other financial institutions. Similarly, TDF can invest in shares, debentures or bonds, receive management fees or interest spread for the mobilization of its fund and also receive service fees for the provision of technical assistance and consulting services.

As provisioned in the act, TDF can have numerous clients ranging from municipalities and urbanizing rural municipalities (or small towns) to the other institutions related to urban development such as Town Development Committees (TDCs), Development Authorities, Boards, Corporations, and Community-Based Organizations (CBOs), among others. The main clients, however, are urban local governments. Furthermore, TDF can also strengthen the technical, managerial and financial capabilities of municipalities in the formulation, implementation and in overall management of urban development plans and programs.

### 1.5 System and Process

TDF Act has envisioned the Board as a policy-making and governing body within management structure and the Board members are also given the authority to select Executive Director as an executive and administrative chief of the organization. The roles and responsibilities of Executive Director are multiple. As a part of the organizational process, the Executive Director (ED) has to initiate overall leadership and take responsibility for the organization regarding preparation and implementation of its vision and also prepare strategies and business plans as per the

decisions of the Board. TDF has developed Loan and Grant Policy, Investment Guideline, respective manuals as the guiding documents, and Standard Operating Procedures (SOPs) for efficient and effective service delivery.

## 1.6 Current Business Model

As a financial intermediary, TDF lends financial resources for urban infrastructure development in debt financing model by following its loan and grant policy in coordination with donors' policy and agreement. As per the loan and grant policy, urban infrastructures are classified in three categories **i) Social Infrastructure, ii) Utility Infrastructure, and iii) Economic/Revenue Generating Infrastructures**. TDF has been financing different projects in alignment with donor's financial modalities. Existing financing modalities for different sectors have been provided in Table 1.

**Table 1: Financial sector and modalities based on Loan and Grant Policy and other sector-wise Projects**

Sector	Project Categories	Project Types	Financial Modalities
<b>Urban Infrastructure Sector</b>	Economic/ Revenue Generation Projects	Bus park, multiple purpose building, agriculture markets, land pooling, parks, etc.	<ul style="list-style-type: none"> <li>● Loan: up to 90 % of total project cost</li> <li>● Municipality: Minimum 10 % of total project cost</li> </ul>
	Utility /Social Infrastructure Projects	Water supply, municipal building, streets lights, roads, pavements, Drainage, public toilets, schools, hospitals, conservation etc.	<ul style="list-style-type: none"> <li>● Loan: up to 30 % of total project cost</li> <li>● Grant: up to 60 % of total cost</li> <li>● Municipality: Minimum 10 % of total project cost</li> </ul>
<b>Water Supply and Sanitation Sector</b>	Water Supply and Sanitation / Co-Finance	Water supply and sanitation	<ul style="list-style-type: none"> <li>● Loan: up to 20-45% of total cost</li> <li>● Grant: 50-70% of total project cost</li> <li>● Users' (upfront): Minimum 5-20% of total project cost</li> </ul>
<b>Urban Transport Management Sector</b>	Sustainable Urban Transport Project	Sustainable urban transport project	<ul style="list-style-type: none"> <li>● Loan: up to 80 % of total project cost</li> <li>● Grant: 15 % of total project cost</li> <li>● Special Propose Vehicle (Company): 5% of total project cost</li> </ul>
<b>Solid Waste Management Sector</b>	Output based aid projects	Solid waste management	<ul style="list-style-type: none"> <li>● Grant output based activities (OBA): 100 % (based on output to the participated municipalities)</li> </ul>

## 1.7 Current Status

### 1.7.1 Loan and Grant Investment<sup>1</sup>

Since its establishment, TDF has received financial support in the form of loan and grant from different international donors (ADB, World Bank, KfW, GIZ) and government. TDF has invested in different projects: i) social projects (i.e. hospital, school, public toilets, drainage), ii) utility projects (i.e. water supply and sanitation, roads, public/municipal buildings), iii) economic/revenue generation projects (i.e. bus park, commercial complex, agriculture market, parks, tourist place development, local product center) of the municipalities and small towns. As of FY 2019/20, TDF has completed 1196 projects (loan and grant) out of 1322 projects with a total investment of NRs. 11,908 million whereas NRs. 9,616 million as Loan and NRs. 2,292 million as Grant.

### 1.7.2 Loan Recovery and Repayment

TDF lends to its clients as per the terms and conditions of donor agencies as well as following TDF's Loan and Grant policies. Installments are to be paid twice a year, at the end of every Poush and Ashad (January and July). As of FY

<sup>1</sup>Policy, Program and Budget of FY 2020/21 -TDF



2019/20, TDF's receivable amount was NRs. 5075.8 million, out of which NRs. 4,565.2 was received from its clients. It indicates TDF's cumulative progress as of FY 2019/20. Similarly, TDF has borrowed NRs. 4,665.2 million by FY 2019/20 from different donor agencies through the GoN on varying interest rates and loan maturity with grace period. TDF also repays loan interest to the GoN on a regular basis with no overdue as of FY 2019/20.

### 1.7.3 Revenue and Expenditure

TDF's main income sources are interest on loan and service charged on grant mobilization. GoN doesn't support the office operating expenses, except for some technical assistance channeled through the project line; therefore, TDF manages all its operational expenses from its own revenues. TDF also supports the capacity development initiations and activities of municipalities and small towns. Although, its Act has given the institution leverage on the tax; however, it hasn't received any tax incentives. Hence, TDF pays 25% income tax on its profit on an accrual basis accounting system.

### 1.7.4 Financial Operational Situation of TDF

The TDF Audit Reports of the last three years have been consolidated to review various indicators, their changes and to evaluate actual causes/reasons of changes. The loan disbursement and retained earnings have slightly increased in the Fiscal year 2075/76. The financial position of TDF is briefly presented in Table 2.

**Table 2:** Financial Position of TDF (NPR. in Million)

Particulars	2016-17 (2072/73)	2017-18 (2073/74)	2018-19 (2074/75)	2019-20 (2075/76)
Equity Share Capital from GoN	2,458	2,458	2,763	2,763
Borrowings/Loan from GoN	3,194	3,833	4,813	4,665
Investment to Municipal/WUAs	5,747	6,950	7,759	8,023
Fixed Assets	142	141	139	148
Investment on Banks FD	950	1,050	1,200	1,350
Cash and Cash Equivalent	1,016	811	1,364	919
Income	494	624	514	568
Expenses	241	242	222	181
Net Profit after Tax	193	301	35	272
Total Retained Earning	1,006	1,307	1,342	1,614
Recovery Percentage (%)	85%	70%	74.02	62.25

Note: Financial Statements of FY 2016/17, 2017/18 were prepared based on GAP and FY 2018/19 and FY 2019/20 based on NFRS.

### 1.7.5 Human Resources Management System

TDF has already initiated a performance-based delivery system through its departments and divisions with defined annual Key Performance Indicators (KPIs) aligned with SOPs. TDF has approved 46 positions but only 37 are fulfilled on both permanent and contract bases at the present. Besides, nine full time experts are also working in TDF with support from GIZ and ADB.

## CHAPTER 2: TDF'S BUSINESS PROCESS

Town Development Fund (TDF) has various urban development projects under implementation. Among different projects at hand, some projects are nearing completion, whereas some others are under initiation phase. Similarly, necessary business processes for some of the projects are still ongoing and these projects have potential to be enlisted in TDF's portfolio. Overall business process of TDF is presented below.

### 2.1 Business Project of TDF

#### 2.1.1 Urban Infrastructure Development Program (UIDP)

Urban Infrastructure Development Program (UIDP) is implemented with the financing agreement between GoN and TDF to mobilize the source of GoN. TDF lends financial resources for investments in municipal development projects with the intention to finance projects of municipalities and urbanizing rural Municipalities. Town development fund also seeks to increase the Urban Infrastructure development program portfolio in coming years, for the positive impact on the development of urban centers as engines of growth. UIDP receives a credit line from the GoN within a set out financing modality as loan and this credit line does not comprise of any grant. TDF has invested Rs. 112.6 million as of FY 2076/77. The Urban Infrastructure Development Project (UIDP) follows the project cycle as explained in Figure 1.

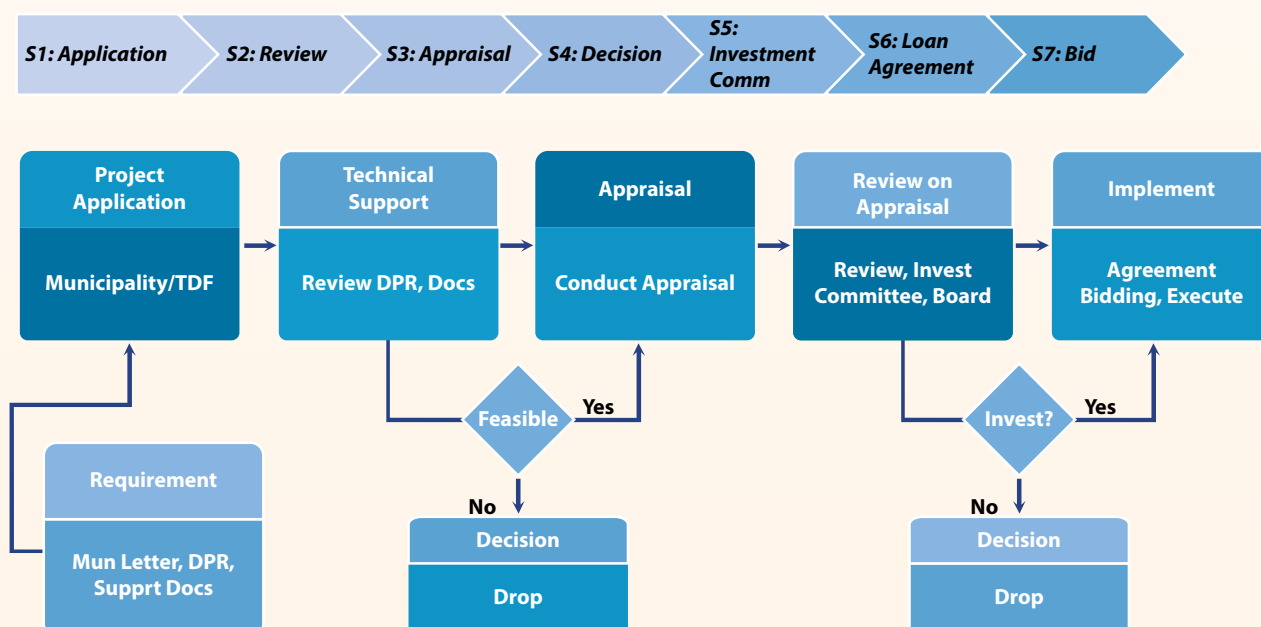


Figure 1: UIDP Project Cycle

**Stage 1: Application:** TDF receives loan applications along with the required documents from the municipalities.

**Stage 2: Project Review:** TDF performs the following activities at this stage

- i. Reviews submitted document, provides comments and feedback
- ii. Conducts site visits for the project that has been submitted for loan approval
- iii. Arranges meetings with the municipal officials for a formal discussion to understand the site and comprehend project details of the concerned projects to evaluate its suitability. This process enables TDF to better understand the project as well as the site and communicate with the local bodies regarding the project itself.

**Stage 3: Appraisal Preparation:** After DPRs have been reviewed and site visits have been conducted, the appraisals are undertaken for the projects. Based on these appraisals, the projects are evaluated under criteria set by TDF for respective projects, which are feasible enough, are accepted and undertaken. Appraisal process ensures that the municipalities are in line with the appraisals conducted by TDF and these projects also fulfill necessary conditions of financing for the project.

**Stage 4:** After TDF has finalized the decision, the municipalities are informed about the final decision of TDF, whether the institution will undertake or reject the project. The municipalities are also provided with the valid reasons for both acceptance and rejection of the project based on project appraisal.

**Stage 5:** After the project appraisals has been completed, the proposal regarding decision to undertake is presented before the Investment Promotion Committee, it recommends the projects to the Board for final approval.

**Stage 6:** Loan agreement is signed at this stage after the recommendation of loan from the IPC with approval from the Board.

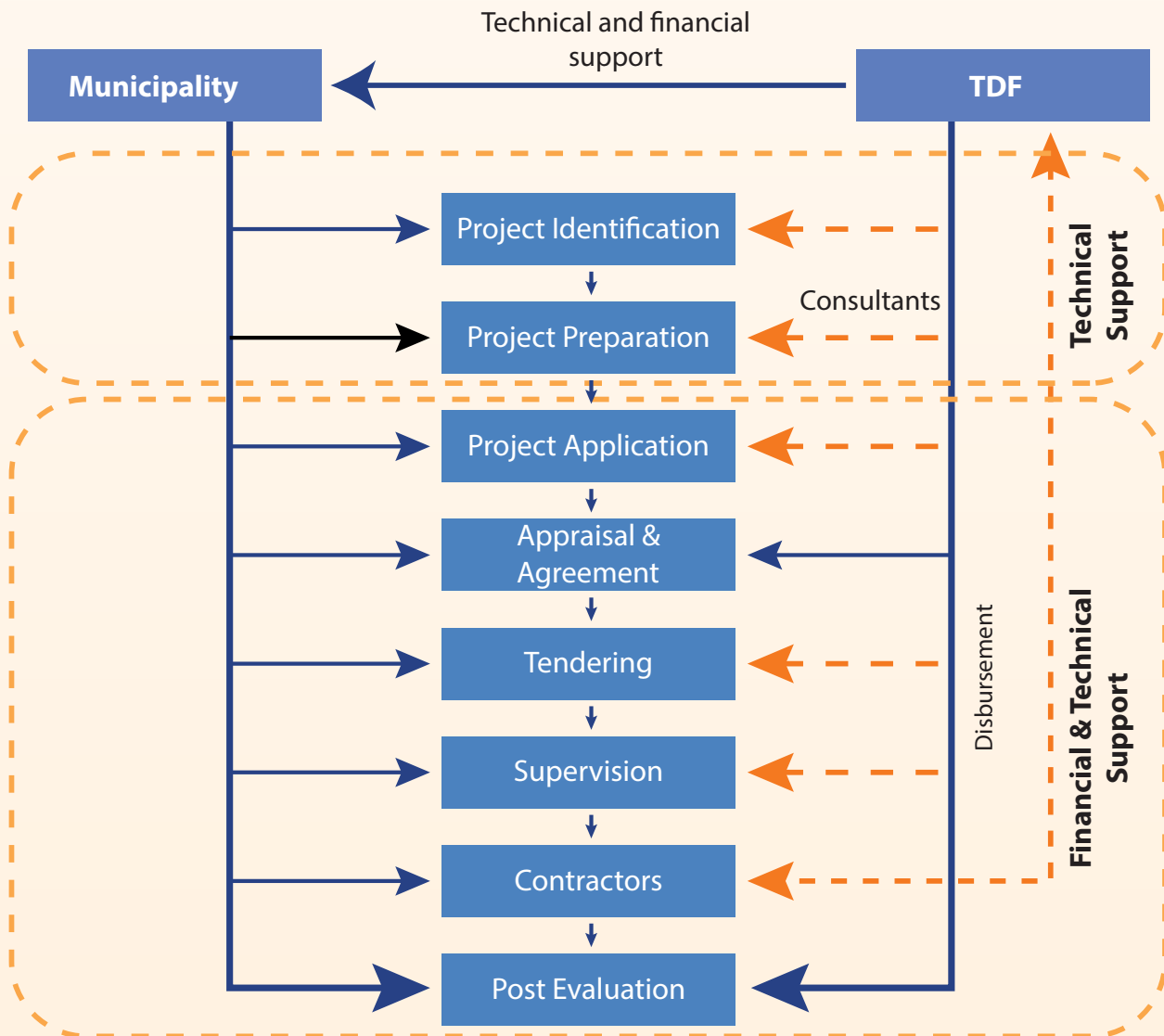
**Stage 7:** After the signing of the loan agreement procurement process for the project, construction work is initiated by calling Invitation for the Bids, followed by evaluation of submitted bid and the award of contract. After this process construction work for the projects begins. All these construction works need to be undertaken as scheduled by the municipality.

TDF constantly monitors all of its business processes and supports the municipalities when required. TDF also monitors the construction works undertaken after this process and also disburses the payments as per the request for payments. TDF deems the project complete once the project completion report is submitted by the municipality. The post evaluation stage is also considered for loan repayment from the invested projects as well.

**2.1.2 Technical Assistance Program**

TDF has been implementing technical assistance programs for the capacity building of municipalities and water users’ committees in project development, project implementation, project management, financial management, revenue improvement, and for periodic plan preparation based on demand side requirements. TDF’s Technical and Financial assistance initiatives have been presented in Figure 2.

**Figure 2:** TDF Technical and Financial Assistance



## 2.2 Donor Based Projects

TDF has various donor-based project viz. STWSSSP, UWSSSP, TDP, STIUEIP, IUDP etc. Here, the business process is explained mainly for Water supply Projects. Currently, TDF engaged with five programs under the water supply and sanitation sector namely STWSSSP – I, STWSSSP – II, STWSSSP – III, UWSSSP & Co-Financing. Town Development Fund (TDF) is responsible for providing loan, equivalent to 25% of civil works costs for water supply subprojects, to the Water Users' Associations (WUAs). TDF supports WUAs in handling project accounts and financial management during the implementation and loan repayment period. The major role and responsibilities of TDF under these projects as follows:

- i. Financial appraisal of the subprojects;
- ii. Signing subproject financing agreement with the WUAs or municipalities;
- iii. On-lending the loan portion to the WUAs or municipalities;
- iv. Recommending and monitoring tariffs to cover operation expenditures, debt service payments and future expansion;
- v. Providing training in tariff setting, accounting, computerized billing, and financial management to members and/or employees of WUAs or municipalities; and
- vi. Disbursing and receiving repayment of loans.

### 2.2.1 Project Cycle:

The Water supply and sanitation sector projects follow the project cycle as presented below.

**Stage 1: Application:** The PMO/DWSSM prepares the DPR for selected projects and sends it to TDF with required documents as prescribed by the project. Procurement, contract management and quality assurance procedures are managed by DWSSM.

**Stage 2: Appraisal Preparation:** Once the DPRs are submitted by the PMO to TDF, appraisals are undertaken. TDF conducts appraisal based on the DPR and TDF's Guidelines. Procurement of contract from DWSSM and project appraisal from TDF move in parallel.

**Stage 3:** After the project appraisals has been completed, the proposal regarding decision to undertake is presented before the Investment Promotion Committee, it recommends the projects to the Board for final approval.

**Stage 4:** Loan agreement is signed with the WUAs or municipalities in this stage after Approval of loan both from the investment committee and the Board. TDF also prepares and recommends tariff structure that WUAs need to comply for the assurance of loan recovery.

**Stage 5:** After the signing of loan agreement procurement process, construction work is initiated. TDF disburses funds to the WUAs/ contractors based on the submitted IPCs. TDF also considers repayment of loans mechanisms in this stage as well.

## CHAPTER 3: NATIONAL DEVELOPMENT AGENDAS & FINANCING NEEDS

Nepal has attained political stability after a long period of political instability, debates and discussions. The New federal system envisioned by the Constitution of Nepal, 2072 is functioning in its full spirit after the completion of the election at all three levels of governments. The present federal government that was formed on 15th February, 2018 has defined a clear road map for the development and prosperity of the country up to the period of 2100 B.S. (i.e. 2043 AD) and the detailed national plan has been named as the 'Fifteenth Plan' for the period of five years from FY 2019/20 to 2023/24. Government has also prepared its sectoral development policies, plans and strategies to support its vision.

### 3.1 Long Term Vision

The 'Fifteenth Plan' has defined the long term vision of our country as – 'Prosperous Nepal, Happy Nepali' This plan aims at three major milestones for the development of the country- first to escalate into the stage of developing country by 2022 from the present stage of least development country; second, to be the high middle income country by 2030 along with the achievement of the sustainable Development Goals (SDGs); and third, to be the developed country by 2100 B.S. (i.e. 2043 AD). To become a developed country status by 2100 B.S.; the long- term goals have been defined into two broad categories as following:

#### In prosperity

- a. Accessible modern infrastructure and intensive connectivity.
- b. Development and full utilization of Human Capital Potentials
- c. High and Sustainable Production and productivity.
- d. High and Equitable National Income

#### In Happiness

- a. Well -being and decent Life
- b. Safe, civilized and Just Society
- c. Healthy and balanced environment
- d. Good Governance
- e. Comprehensive democracy
- f. National Unity, Securing and Dignity.

To achieve the above long-term national goals, following eight sectors have been identified as the main drivers of socio-economic transformation of the country:

- (a) Qualitative Integrated Transportation System, Information Technology and Communication Infrastructure and Extensive Networking.
- (b) Qualitative Human Capital formation, Entrepreneurial working culture Development and the Full Utilization of potentialities.
- (c) Increase in Hydropower Production and Promotion of Green Economy.
- (d) Capacity Enhancement on production, productivity and competitiveness.
- (e) Development and Expansion of qualitative Tourism Services
- (f) Modern, Sustainable and Well Managed Urbanization, Housing and Settlement Development.
- (g) Provincial and Local Economic Development and Strengthening and Expansion of formal Sectors.
- (h) Assurance of Social Projection and Securing.
- (i) Administrative Improvement and Good Governance Enhancement

This plan has targeted the average annual economic growth of 10.5% by the year of 2100 B.S. and the per capita income will increase to USD 12,100 from the present level of USD 1047. (Base year 2075/76 B.S.) Hence, while preparing the strategy and action plan of TDF, above stated long-term vision and targets of the government along with the main drivers of socio-economic transformation have been taken into consideration.

### 3.2 Policy Actions and Expected Outcomes

The Fifteenth Plan (2019/20 – 2023/24) aims to create a basis for achieving the above stated long term national vision of 'Prosperous Nepal, Happy Nepali'. This plan expects to meet the following qualitative targets as given in Table 3.

**Table 3: Qualitative Targets of Fifteenth Plan**

SN	Major Targets/Areas	Indicators			
		Unit	FY 2074/75 (Actual)	FY 2080/81 (Targets)	BS 2100 (Targets)
1.	GDP	%	6.8	10.3	10.5
2.	Per Capita Income	USD	1,047	1,595	12100
3.	Population under poverty level	%	18.7	11	0
4.	Unemployment Rate	%	11.4	6	3
5.	National and Regional Roads	KM	6,979	15,000	33,000
6.	Fast Track Road (including underground)	KM	0.1	76	2,000
7.	Railways	KM	42	200	2,200
8.	HHs accessible to transport within 30 mins	%	78.9	95	99
9.	HHs accessible to Electricity	%	90.7	98	100
10.	HHs accessible to Basic W/S	%	88	99	100
11.	HHs Accessible to High/Middle level water Quality	%	20	44	95
12.	Internet Users	%	55.4	80	100
13.	Contribution to Economy				
	(a) Primary Sector	%	27.6	23	9
	(b) Secondary Sector	%	14.6	18.1	30
	(c) Tertiary Sector	%	57.8	58.9	61
14.	Electricity Production (Installed Capacity)	MW	1,020	5,000	40,000
15.	Per Capita Consumption of Electricity	MW	198	700	3,500
16.	Renewable Energy Contribution to total Energy	%	5	12	
17.	Exports of goods and services (Ratio on GDP)	Ratio	9	15.7	
18.	Imports of Goods and Services (Ratio on GDP)	Ratio	50.8	51	
19.	Transmission Line		3,465	8,000	
	(a) 66 K and above	Circuit KM			
	(b) 33 km transmission	Circuit KM		7,277	
	(c) 11 KV Transmission Line	Circuit KM		43,352	

The 15th plan and sectoral development strategies approved by the government have defined the sectoral development goals, objectives, strategies, policy actions and the expected outcomes along with the issues, challenges and the development prospects in each of the socio-economic and infrastructure sectors as given in Table 4.

**Table 4: TDF Related Sectors**

TDF Related Sectors	Other Development Sectors
a. Agriculture and irrigation	a. Land Management
b. Water resources and hydropower	b. Remittance
c. Transport infrastructure	c. Entrepreneurship development
d. Transport management	d. Air transport
e. ICT Infrastructure	e. Railways
f. Urban Development and housing	f. Water transport
g. Tourism Infrastructure Sector	g. Foreign and Investment
h. Sustainable goals	
i. Employment and Labor	
j. Private sector and PPP	
k. Water Supply and Sanitation Sector	

Following sectors have been highlighted and taken into consideration for preparation of Business Plan, Strategies and Institutional Development Plan of TDF:

**a. Agriculture and Irrigation Sector:**

- i. Develop specific projects for Agriculture infrastructure needs in coordination with municipalities to link with the value chain of entire agro products.
- ii. Promote local product market and agriculture market through agro-based infrastructure development.
- iii. Provide support mechanisms for the development of the Cold Storage Centre.
- iv. Facilitate the promotion of the Local Economic Development (LED).

**b. Water Resources and Hydropower Sector**

- i. Provide support to municipalities for the development of the hydropower electricity within their given authority to enhance revenue capacity.

**c. Transport Infrastructure**

- i. Attract alternative sources of investment and reduce dependency in traditional government sources.
- ii. Adopt modern contract management such as PPP, EPC, EPCF and Design Build models for the development of large-scale investment projects such as Metro, Cable Car and inter-provincial roads.
- iii. Manage financial resources required for the operation and maintenance of Local Road Networks (LRT) infrastructures through the users as well.

**d. Transport Management**

- i. Facilitate mass transit and bus rapid transit system for sustainable public transport management.
- ii. Promote partnership between private and cooperative sectors together with LGs for the investment and the management of the public transport systems.
- iii. Increase and mobilize Kathmandu sustainable transport management revolving fund for electricity vehicles with specific priority.

**e. Information and Communications Technology Infrastructures**

- i. Provide support to municipalities for the formation of ICT villages with sufficient modern infrastructures and technologies.
- ii. Initiate and support e-billing and e-payment for urban utility infrastructures services.

**f. Urban Development and Housing**

- i. Provide basic urban infrastructures and services to 293 municipalities through the preparation of Integrated Urban Development Plans (UIDPs).
- ii. Develop nodal cities along the crossing of highways, new towns nearby to the industrial and business centers, and the modern cities along the economic corridors with the involvement of the private sector.
- iii. Encourage PPP and PPCP (public-private-co-operative/community partnership) concept and adopt the land value capturing techniques for attracting the private and alternative investment sources in the development and expansion of urban areas.
- iv. Prioritize implementation of land pooling models.
- v. Develop provincial capital cities in each of the provinces.
- vi. Launch urban regeneration projects in the old core city areas of Kathmandu valley.
- vii. Articulate and apply partnership approach among the LGs, private sector and communities to initiate the provision of housing and settlement level infrastructure and services in an integrated way.

**g. Tourism Infrastructure Sector**

- i. Develop Tourism infrastructure to enlarge and enhance the municipality revenue sources.
- ii. Formulate marketing and promotional strategy for attracting investment for modern tourism infrastructures and mobilize the domestic and foreign investment through the adoption of public-private-cooperative/community partnership approach.

- iii. Develop sports training centers and stadiums
- iv. Encourage development of revenue generation infrastructures like recreation and fun parks.

#### **h. Sustainable Development Goals**

- i. Achieve the targets of SDGs by 2030, as the Fifteenth Plan and the sectoral development strategies have internalized the SDGs into their plans, strategies and programs.
- ii. SDGs are globally agreed common development framework for the planet, people and their prosperity. Hence, considering development paradigm of SDGs have become crucial for attracting foreign investment due to international commitment.
- iii. NPC has also come up with the needs assessment, costing and financing strategy for achieving the SDGs.

#### **i. Employment and Labor**

- i. In Nepal, every year around 5 lakhs labor force have entered into the labor market and everyday around 1000 youths depart abroad for employment.
- ii. Remittance contribution in the economy is about 25.2% of GDP, which is one of the highest in the world.
- iii. Out of the total national labor force, only 36.5% have been employed in the formal sector and the unemployment rate is 11.4%.
- iv. Out of total 5 lakhs labor force entering every year into the market, the capacity of vocational and skill development training is only available to 1.5 lakhs.

#### **j. Private Sector and PPP**

- i. Private sector has a major role for igniting economic growth through enhancing and enlarging their investment and production activities, together with their service delivery systems and employment generation activities.
- ii. Government has an important role both as a facilitator and a regulator for making the private sector more competitive, strong, productive and responsible.
- iii. Within an enabling environment, private sector will promote and facilitate the production of goods and services through productive and dignified employment and this will again potentially increase investment.

#### **k. Water Supply and Sanitation sector**

- i. In line with the GoN's 15-Year Development Plan (first prepared in 2009 and updated in 2015) for Water Supply and Sanitation in Small Towns, Asian Development Bank (ADB) has been supporting the Government of Nepal in enhancing water and sanitation services in small towns since 2001.
- ii. GoN had prioritized improvement of Water and Sanitation Sector and set target in 15th Plan of NPC to achieve basic water supply and sanitation services for 99% of the entire population increasing from the existing 89%, and improved (high and medium level) drinking water services will have been made available to about 40% of the population.

### **3.3 NPC Fifteenth Plan Financing Needs**

The National Planning Commission in its 'Fifteenth Plan' and the 'Financing Strategy', has formulated development objectives within its fifteenth planning period to achieve SDGs by 2030. NPC documents have also identified financing needs and the gaps. These documents have indicated investment requirements that can be mobilized through the private sector along with the contribution from PPP financing & the FDI. For designing the business targets, strategies and the action plan of TDF; the targets set out by the GoN/NPC for mobilizing the PPP and private investment including FDI have been taken into consideration. The fifteenth plan has expected following GDP at producers Price in Table 5.



**Table 5:** Expected GDP at Producers Price

Fiscal Year (FY)	GDP (in billion NPR, at producers' price)
2019/20	3783.64
2020/21	4167.43
2021/22	4601.46
2022/23	5069.27
2023/24	5615.19

To achieve the average annual growth of 9.6% during the fifteenth planning period (i.e. 2019/20-2024/25), total investment requirement is NRs. 9229 billion. And, out of this total requirement, the expected contribution from public private and cooperative sectors are projected at NRs. 3598 billion (i.e. 39%), NRs. 5134 billion (i.e. 55.6%) and NRs. 496 billion respectively (i.e. 5.4%).



## CHAPTER 4: BUSINESS ENVIRONMENT ANALYSIS

Development of essential urban infrastructure across the country is backbone of any economy and also a pre-requisite for a sustained and balanced development. However, there is a huge gap in terms of both the quantity and quality of infrastructure services. In addition, Nepal has witnessed a surge in population growth in the urban locations and the pace of urbanization has been rapid, hence NUDS has identified a growing need for enhancing sub-national finance for local governments to manage the municipal financing requirements.

With reference to the investment-demand analysis of NUDS, the municipalities are under tremendous financial strains to keep their pace of development with increasing infrastructural needs and also upgrade and prove the quality overall service delivery. However, the potential resources in the municipalities are yet to be mobilized to address financing need of the cities regarding infrastructure development. Besides, the institutional capacity of municipalities to mobilize potential resources remains limited.

### 4.1 Constitution and Legal Framework

The historic Constituent Assembly of Nepal promulgated constitution of Nepal on September 20, 2015; with the state structures conceived as Federal, Provincial and Local Level governments. The constitution of Nepal formed 1 Federal Government, 7 Provincial Governments and 753 Local Governments with provision of their specific rights stated in Annex 8 & 9 of Constitution. Local governments (LGs) elections and legislative elections for federal and provincial governments were held in 2017. After the completion of all three tiers of elections, Nepal is now geared towards rapid infrastructure development with formation of urban-centric local government units.

The Constitution refers to spheres of governance for all tiers of government as - exclusive functions of federal, provincial and local level with concurrent functions between federal and provincial governments, and concurrent functions among federal, provincial and local governments. The federal government (FG), provincial governments (PGs) and LGs has shared authority to raise taxes, service charges and fees as enlisted in the Annexes of the Constitution. Market borrowing has been considered as 12% of own source revenue. Sharing of revenue between FG and PGs are made as per policy of National Natural Resources and Fiscal Commission (NNRFC) for FY 2077/78. PGs and LGs can take debt after approval of FG.

### 4.2 National Urban Policy and Strategy

The National Urban Policy (NUP) 2007 has set forth three main objectives: i) balanced urban infrastructures; ii) healthy and economically vibrant urban environment; and iii) effective urban management. Based on NUP 2007, National Urban Development Strategy (NUDS, 2017) has set following objectives – i) develop a medium and long- term strategic vision of desirable national and regional urban system based on exiting trend and resource potentialities; ii) establish benchmark for urban infrastructures, urban environment, urban planning and urban governance; iii) project investment needs for next 15 years; iv) suggest institutional framework and legal instruments; and v) suggest new approach to urbanization and development. More importantly, major milestone by 2031 include annual investment of 2% of gross domestic product (GDP) in urban infrastructure development (NUDS).

### 4.3 Municipal Financing Framework

Within in current structure of governance, investments required for urban infrastructures can be financed sustainably through a mix of local revenue, transfers from central and provincial governments, borrowing from dedicated financial intermediaries like TDF; forging partnership with private sector, non-governmental organizations (NGOs) and through community organizations, and also by opting for commercial borrowing for financially viable projects. The Municipal Finance Framework (MFF) covers comprehensive assessment of its Own Source Revenue (OSR), Intergovernmental Fiscal Transfer (IGFT), borrowing frameworks, and recommend reforms. Borrowing is still not a major source of municipal financing, as current borrowing comprises only 0.85% of municipal total revenue (or 3 % of municipal internal revenue) in average. Here, it is worthwhile for municipalities to assess their borrowing capacity in the context of their projected internal revenue generation for the next 15 years (MFF 2015)

### 4.4 Needs for Urban Infrastructure Investment

Total investment needs for urban development at a rate of NRs. 9300 per capita of capital cost for 293 Municipalities is NRs. 3,312.12 billion for 15 years whereas provincial level urban infrastructure development cost is rated at 47% of Municipality Investment amounting to NRs. 1,556.70 billion. Thus total investment needs for next 15 years (2016 AD-2030 AD) is estimated at NRs. 4,868.82 billion. Table 6 depicts targeted investment under different scenarios.

**Table 6:** Total investment needs in 293 municipalities and provinces (NRs in Billion)

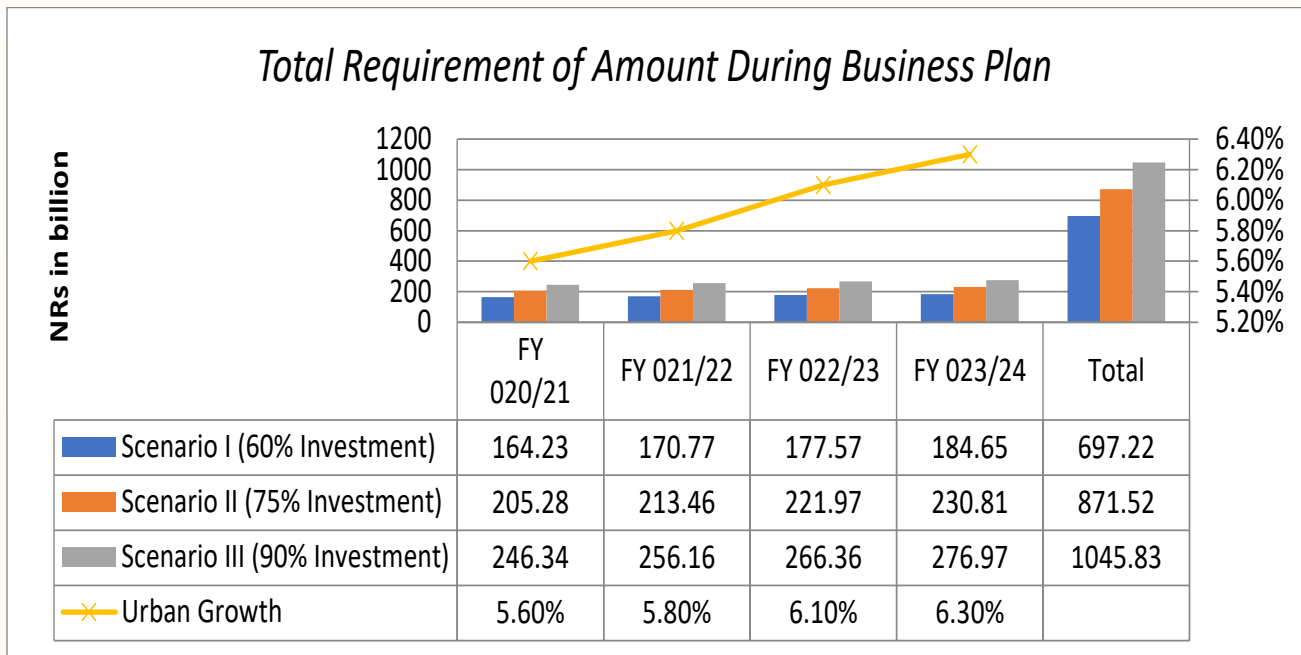
S.N.	Description	Targeted Investment			
		100%	90%	75%	60%
1	Urban Infrastructure for Municipality	3,312.12	2,980.91	2,484.09	1,987.27
2	Province level Urban Infrastructure (additional 47%)	1,556.70	1,401.03	1,167.52	934.02
<b>Total (1+2)</b>		<b>4,868.82</b>	<b>4,381.93</b>	<b>3,651.61</b>	<b>2,921.29</b>

(Source: NUDS, 2017- calculated as per assumption of NRs 9,300 per capita of urban population)

The investment requirement as per of 4-years Business Plan (July 2020-July 2024) is based on different scenario as presented in Figure 3. Likewise, the total investment required to achieve 60% coverage of targeted infrastructure cost for the period of 2020-2024 AD period is NRs. 697.22 billion which is presented in Table 7.

**Table 7:** Investment required for 2020-2024 AD for 293 municipalities and 7 provinces. (NRs. in Billion)

Particulars	Total Requirement for 15 years	Target	017/18	018/19	019/20	4 Years Business Plan				Total
						020/21	021/22	022/23	023/24	
<b>Urban Dev. Growth As per NUDS 2017 (more than 4%)</b>	4.0%		5.0%	5.2%	5.4%	5.6%	5.8%	6.1%	6.3%	
<b>a) Total Investment</b>	<b>2,921.29</b>	<b>60%</b>	<b>146.06</b>	<b>151.88</b>	<b>157.94</b>	<b>164.23</b>	<b>170.77</b>	<b>177.57</b>	<b>184.65</b>	<b>697.22</b>
<b>Urban Infrastructure for Municipality</b>	1,987.27	60%	99.36	103.32	107.44	111.72	116.17	120.80	125.61	474.30
<b>Province level Urban Infrastructure (additional 47%)</b>	934.02	60%	46.70	48.56	50.50	52.51	54.60	56.78	59.04	222.93
<b>b) Total Investment</b>	<b>3,651.61</b>	<b>75%</b>	<b>182.58</b>	<b>189.85</b>	<b>197.42</b>	<b>205.28</b>	<b>213.46</b>	<b>221.97</b>	<b>230.81</b>	<b>871.52</b>
<b>Urban Infrastructure for Municipality</b>	2,484.09	75%	124.20	129.15	134.30	139.65	145.21	151.00	157.01	592.87
<b>Province level Urban Infrastructure (additional 47%)</b>	1,167.52	75%	58.38	60.70	63.12	65.64	68.25	70.97	73.80	278.66
<b>c) Total Investment</b>	<b>4,381.93</b>	<b>90%</b>	<b>219.10</b>	<b>227.83</b>	<b>236.90</b>	<b>246.34</b>	<b>256.16</b>	<b>266.36</b>	<b>276.97</b>	<b>1045.83</b>
<b>Urban Infrastructure for Municipality</b>	2,980.91	90%	149.05	154.98	161.16	167.58	174.26	181.20	188.42	711.46
<b>Province level Urban Infrastructure (additional 47%)</b>	1,401.03	90%	70.05	72.84	75.74	78.76	81.90	85.16	88.56	334.38



**Figure 3: Total requirement of amount during business plan**

#### 4.5 Positioning of TDF for Municipal Finance

Municipal finance in Nepal is mainly based on a non-commercial source i.e. from bilateral (e.g., GTZ) and multilateral (e.g., ADB, WB) grant and loan contributions. TDF has been financing loan and grants for the urban projects. Municipal borrowing capacity and revenue generating capacity of individual projects are the determinants that make a project bankable for TDF financing. Other commercial banks are not in the position to finance municipal infrastructures for a long-term.

Urban center with poor infrastructure cannot function as “Engine of Economic Growth” to meet the Sustainable Development Goals (SDGs). To achieve Nepal’s national objectives of sustainable inclusive growth, Nepal needs to invest an estimated NRs. 4,868.82 billion in infrastructure over the 2016-2030 periods.

Given the narrow revenue base and limited capacity of government to perpetually finance capital expenditures without corresponding returns, the capacity of municipalities to finance their development from effective use of loans and supported by grants has become necessary, to meet the longer term goal of improvement in basic services in the municipalities. This is where TDF has a very important role for stimulating development of urban centers in the country. TDF has financed social development projects in several municipalities, which have improved the living conditions of urban poor.

Within current governance framework municipalities have more authority to mobilize the resources to meet the raising demands for urban infrastructure. TDF’s financing requirements are also in large quantity, hence this institution can play a vital role for the urban development. TDF’s financing needs for next four years (2020-2024) for 293 municipalities’ infrastructure are projected as NRs 270.31 billion, NRs 430.67 billion, and NRs 578.18 billion for the Scenarios 1, 2 and 3, respectively. It indicates a huge business opportunity in the prospective of TDF. Table 8 depicts TDF’s financial requirement under different scenarios.

**Table 8: TDF's financing requirement for infrastructure in 293 municipalities (NRs. in Billion)**

Financing of Investment need	Base Year	Business Plan Period				Total
	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	
<b>Net Financing requirement (Scenario 1)</b>	83.20	71.60	73.80	74.36	74.06	293.82
Cost sharing (3% of total investment requirement)	2.50	2.15	2.21	2.23	2.22	8.81
PPP Project (3% of total investment requirement)	2.50	2.15	2.21	2.23	2.22	8.81
PCP (including NGOs 2 % of total investment)	1.66	1.43	1.48	1.49	1.48	5.88
<b>TDF Financing Requirement Scenario 1</b>	<b>76.54</b>	<b>65.87</b>	<b>67.90</b>	<b>68.41</b>	<b>68.13</b>	<b>270.31</b>
<b>Net financing requirement (Scenario 2)</b>	122.68	112.65	116.49	118.75	120.22	<b>468.12</b>
Cost sharing (3% of total investment requirement)	3.68	3.38	3.49	3.56	3.61	14.04
PPP Project (3% of total investment requirement)	3.68	3.38	3.49	3.56	3.61	14.04
PCP ( including NGOs 2 % of total investment)	2.45	2.25	2.33	2.38	2.40	9.36
<b>TDF Financing Requirement Scenario 2</b>	<b>112.86</b>	<b>103.64</b>	<b>107.17</b>	<b>109.25</b>	<b>110.60</b>	<b>430.67</b>
<b>Net Financing requirement (Scenario 3)</b>	162.16	153.71	159.19	163.15	166.38	<b>642.43</b>
Cost sharing (5% of total investment requirement)	8.11	7.69	7.96	8.16	8.32	32.12
PPP Project (3% of total investment requirement)	4.86	4.61	4.78	4.89	4.99	19.27
PCP ( including NGOs 2% of total investment)	3.24	3.07	3.18	3.26	3.33	12.85
<b>TDF Financing Requirement Scenario 3</b>	<b>145.95</b>	<b>138.34</b>	<b>143.27</b>	<b>146.83</b>	<b>149.75</b>	<b>578.18</b>

Note: Calculated and updated as per total investment requirement for 293 municipalities based on indicators prescribed by Municipal Finance Framework for the National Urban Development Strategy (NUDS) Nepal-2015

#### 4.6 Impacts of COVID -19 Pandemics

Unfolding COVID-19 novel corona virus pandemic has brought about crisis in each and every aspect of human condition rather unprecedented since the Great Depression and the future prospects still remains uncertain until approved mass vaccination becomes widely available. Besides, Nepal has not remained beyond from this pandemic as well.

The Government of Nepal enforced a lockdown, beginning 24 March, to slow spread of COVID -19. As of September 20, 2020 about 64 thousand people have tested positive and 411 among them have lost their life. During this period, this crisis has significantly impacted multiple sectors of economy and has also changed variables; the global chain of economic cycle has been push into recession. Nepal's economic growth rate is projected to decline to 2.3% and it is supposed to decline even further. Within this challenging socio-economic context, naturally, TDF also not remained unaffected by this crisis. TDF as a financial intermediary has been financing different kinds of urban projects. Out of them, some projects are under construction and others have already been completed and some of them are providing services as per the projects objectives. However, these projects have also been negatively impacted by this crisis, together with (Municipalities and Users Committees) as well.

## CHAPTER 5: PPP FINANCING & PRIVATE INVESTMENT

### 5.1 PPP Financing and Private Investment

The Fifteenth Plan, Sectoral Development Strategies of GoN and various reports related to PPP and private sector Investment in Nepal, such as Country Private Sector Diagnostic Reports of GoN/ADB have highlighted PPP as the major investment tool for blended finance and urban infrastructures. After comprehensive evaluation of above mentioned documents, existing status, major issues, problems, challenges and prospects associated with PPP financing and private investment in Nepal have been summarized and outlined as follows:

#### 5.1.1 Existing Status

- The Constitution of Nepal has identified the private sector as one of the main drivers for the economic development and prosperity of the country
- Generating investments for public goods and services through the PPP approach in Nepal is still very limited
- The BOOT act was enacted in 2063 B.S. however this act not adequately encouraged the private sector for initiating their investment in public infrastructure and services.
- Notably only few PPP initiatives have been implemented with assistance from the program launched by the government under PPPUE and with the technical assistance from UNDP. Municipalities like Butwal, Biratnagar, Pokhara, and Kathmandu have implemented projects such as bus terminals, market centers and solid waste management from these initiatives
- PPP policy and PPP guidelines at federal level have been prepared and implemented. However, due to the lack of local level special act and policy on PPP, local government bodies are unable to generate confidence including the private sector.
- TDF in a small scale has started debt financing in PPP projects of municipalities. However, TDF still needs to prepare appropriate PPP financing policy and guidelines.
- Asian Development Bank has launched a program named as 'Capital Market and Infrastructure Capacity Support Project' to create an enabling environment for the generation of long-term financing and active private sector participation in infrastructure development in Nepal.
- Parliament has recently approved the 'Public Private Partnership and Investment Act, 2075 (PPPI Act, 2075)' along with the provision of PPP center in the office of Investment Board Nepal. The PPPI regulation-2077 has already been approved by the GoN and other related procurement guidelines are under the process of preparation and approval.
- Government has planned to mobilize the private sector investment of 55.6% of total investment i.e. Rs. 5134 billion within the fifteenth plan period for various development related activities.

#### 5.1.2 Major Issues and Problems

- Weak competitive position of private sector due to the increase in the cost of domestic goods and services
- Procedural complexities in the government system
- Lack of industrial infrastructure development in both regional and provincial contexts.
- Lack of effective operation regarding special economic zones and industrial zones.
- Lack of skilled and semi-skilled human resources in the country.
- Persistence of monopoly, illegal trading and syndicate system in certain areas of the private sector
- Lack of appropriate standard Procurement Documents, Guidelines and other necessary standard documents
- Lack of coordination among the concerned agencies of the government and the private sector
- Foreign exchange risk for private sector investment
- Lack of understanding in the public and private sector about the allocation of risks & benefits, and the costs & returns while structuring PPP projects
- Key sectors of economic growth such as tourism and agribusiness are still dependent on the low level of infrastructure
- Lack of access to long term finance for private investment
- Inefficient land markets act as a restriction for private investment

### 5.1.3 Major Challenges

- Enhancing the capacity of the private sector for their productive and competitive strength
- Encouraging diversification and specialization in private investment
- Mobilizing the private sector for development investment with their available resources
- Concentrating and attracting private sector investments in the productive sector
- Enhancing the entrepreneurship capacity of small and medium enterprises
- Decreasing the transaction cost of intermediaries
- Utilization of innovative technologies and skills for the modernization of the economy
- Formalizing the informal sector economy with robust strategy and policy guidelines
- Initiating transparency and competitiveness of the private sector
- Utilizing the opportunities created by the bilateral and multilateral trade agreements
- Enhancing import substitution and export promotion
- Creating an investment friendly environment for achieving national goals and objectives
- Consolidating confidence in the private sector for the securing of their investment
- Ensuring the optimum utilization of existing resources, skills, technology and the managerial capacity of the private sector

### 5.1.4 Prospects

- Policy consistency with the implementation of the federal system, which has also been strengthened by completion of three levels of election political together with regained political stability
- Increase in purchasing capacity and demand for goods and services in Nepalese economy
- Continuous improvements in the investment friendly policies, legal, institutional and procedural framework
- Formative realization regarding the importance of the private sector for economic prosperity
- Capacity development of the private sector, especially in the energy and construction sector
- Possibility of utilizing the neighboring markets due to the enhanced and improved level of internal and cross-border connectivity infrastructures
- Identification of the potential and priority sectors by the government for private investments i.e. mines and minerals, manufacturing industries, construction, trade, hotels and restaurants, financial intermediaries, land and housing, hydropower and energy, urban development, transport, tourism etc.
- Co-operative federalism has gradually created an enabling environment to address the local issues through sub-national governments and also to generate necessary policy by the federal government
- Rapid urbanization and ever increasing demand for urban infrastructures and services
- Resilience capacity of Nepalese private sector and this resilience remained sustainable even during the decade long conflict and post-earthquake disaster
- Potentialities for utilization of national resources such as water, land and forest for private investments
- High prospects for investment in tourism and agriculture sector by the private sector



## CHAPTER 6: SWOT ANALYSIS

This chapter identifies and outlines issues, challenges, and prospects of TDF that have been articulated through the conceptual framework of Strength, Weakness, Opportunities and Threats (SWOT) analysis. Indications for derived from the SWOT analysis have been enlisted below:

### 6.1 Strengths

- Autonomous financial intermediary institution with its own Act, 1997 and Regulation act, 1998
- Reputed institution with 31 years of experience as the only financial institution sustainably facilitating municipal infrastructure development in Nepal, in collaboration and coordination with different bilateral and multilateral organizations;
- Important financial intermediary (debt finance) for various urban development projects and also a provider of technical and financial resources to support urban infrastructure development projects for sub-national governments in Nepal;
- An institution with necessary policy frameworks and practice experiences for common loan and grant financing activities. Similarly, TDF also articulates investment policy and SOPs with defined job descriptions for all business processes.
- A systematic approach to evaluate client's credit worthiness assessment and project appraisal on the basis of defined "Project Appraisal Manual' in practice
- Formulation of new organizational structure for effective placement of existing staff and other experts, including in-sourcing specialists in appropriate positions.
- Performance based working system with defined KPIs for ensuring achievement of performance targets.
- Durable capital structure (equity base) of NPR 5.9 billion as of FY 2076/77;
- Diversified scope of tasks and products provisioned through the Act, including raising funds through the government, international donors and through other national and international financial institutions.
- As per the act, strong legal basis for securitization of the loan with various tools ranging from revenue intercept on IGFT, collateral, escrowing of local revenues to step-in-rights.
- Provisions for fund-raising through the issue of shares, bonds, debentures, and also through consortium and bridge financing approach.
- Application of Management Information System for efficient and effective service delivery.
- A corporation with strong operational mechanisms and sufficient organizational experience required for coordinated tasks with most of the development partners (DPs) and government.
- Stability of the leadership is ensured by the provision of open competition for selection and appointment of Executive Director.

### 6.2 Weaknesses

- TDF has not taken adequate advantage of all the options available under the Act;
- Limited, mostly donor-driven, products are available so far for financing activities urban development activities; therefore, there is a need for developing diversified and attractive products.
- Possibilities for arising issues related with conflict of interest between the role of lender and borrower due to borrowers' representation in the board of directors
- Lack of legally defined capital structure to sustain long-term vision of TDF as a sustainable financial intermediary
- Lack of leveraging regarding TDF's financial resources
- Lack of legislation for private sector engagement and public private partnership (PPP) for co-financing urban infrastructure projects
- Employee retention and turnover issues due to lack of career growth within the organization resulting into institutional memory loss
- Lack of institutionalized communication and grievance handling mechanism
- Project appraisal system (Manual) is yet to be approved and adopted at its full potential
- MIS has not been integrated with SOPs and KPIs for full operation in digital platform necessary for graduating institutional operations into automation system

- Inefficiency of utilization of equity funds and low level of investment as compared to the volume of funds available.
- Still dependent upon the cash flow recovered from revenue generating projects
- Lack of stringent and diligent involvement in prior project financing & institutional capacity
- Inadequate well-structured bankable projects
- Single entity Loan and Grant Policy and Comprehensive Loan recovery policy has not been applied,
- Mismatch between Organization structure and proposed organogram

### 6.3 Opportunities

- GoN recognizes the role of TDF as the pioneer and sole financial institution for urban infrastructure development in the country and has prioritized to transform TDF into UIDC with larger mandate and increased capital base
- Huge investment demand and market potential with increasing trend in 293 municipalities, together with 60% urban population in need for improved urban infrastructure and services
- Monopolistic market for the municipal finance
- Potentialities for formulating consortium or bridge-financing with other financing institutions and raise funds from domestic and international capital markets.
- Government and the clients have agreed on considering central government revenue interception as the step-in-right for TDF loan recovery;
- Development Partners are interested and willing to further extend their financing support;
- National Urban Development Strategy, National Urban Infrastructure Financing Strategy, and related Urban Financing Framework have been formulated.
- Sub-national governments are fully operated by the elected body.
- Ministry of Finance (MoF) has recognized TDF as potential Direct Access Entity (DAE) to mobilize Global Climate Fund (GCF) for leveraging resource

### 6.4 Threats

- Narrow and constrained resource-base of municipalities for increasing their own source revenue (OSR).
- Limited functional capacity of municipalities regarding project prioritization, project development, procurement and financial management activities and also less prioritization among municipalities for effective operation and maintenance of their assets.
- Lack of uniformity regarding DPs financing policy even in similar sectors projects;
- Revolving funds established under KfW financing have not been utilized fully yet due to the uncertainty of receiving matching grants by the GoN.
- Revenue Intercept Provision of security mechanisms is difficult to apply in practice.
- Uncertainties associated with COVID -19 pandemics. This ongoing pandemic has severely affected the national economy, revenue of municipalities, budget of TDF and return on investment.

## CHAPTER 7: NEED FOR URBAN INFRASTRUCTURE DEVELOPMENT CORPORATION

### 7.1 Rational for Transformation of TDF into UIDC

Nepal aspires to graduate from the Least Developed Country (LDC) status by 2022 and a medium term goal has been framed with a vision to become a middle-income country by 2030 (NPC, 2019). However, it is important to comprehend that improvement in socio-economic index as a middle-income country also implies significant cut in grant assistance from development partners. Hence, Nepal needs to explore non-grant financing options for developing urban infrastructure as well as for achieving its other national development targets. The transition to a federal state has brought in its wake a major shift in responsibilities, delegated from the federal government to local governments. Local Governments also need to fulfill the aspirations of the citizens of Nepal.

Moreover, local governments in Nepal as in other countries need to re-visit their financial instruments and mechanisms to channel their available funds for investing in efficient and sustainable urban infrastructures. Nepal's municipalities have hitherto relied on IGFT for financing, which has been estimated at about 40% of the total receipts that is utilized for capital investments. Given its growing portfolio, IGFT needs to be evolved into a self-sustaining municipal fund and fuel a credit system that can tap domestic and international capital markets for financing.

Similarly, fast growing urbanization has created tremendous pressure for the government to build sustainable infrastructures under different development dynamics. Therefore, in this context, the government has been compelled to upgrade its existing development modalities and also explore alternative financial resources and innovative financial tools for financing development projects. With this realization, GoN has been formulating clear objectives, improving existing policies and strengthening the national institutional capacity for inclusive development. Furthermore, GoN has also carried out few studies for the enhancement of institutions like TDF. These studies have been conducted to scale up and promote the debt financial model through the professional national level financial intermediary.

It is within these emerging challenges and prospects, TDF is seeking its transformation into Urban Infrastructure Development Corporation (UIDC), as envisioned by the GoN in its Annual Policy and Programme of FY 2019/20 and FY 2020/21, with widened mandate and increased capital structure, to a minimum of NRs. 20 billion to leverage much needed infrastructure financing gap in the country. The proposed UIDC bill is under approval process of both cabinet and parliament.

### 7.2 Silent Features of Proposed UIDC:

#### 7.2.1 Purposed Name: Urban Infrastructure Development Corporation (UIDC)

#### 7.2.2 Objectives:

The main objectives and functions of this corporation will be as follows;

- i. To provide economic and technical assistance to the entity relating to urban infrastructure development,
- ii. To perform urban infrastructure development related activities by facilitating coordinated efforts between the Government of Nepal, provincial government and local governments.
- iii. To conduct or act as a cause to conduct functional study and research for operation of newly innovative projects of systematic urban infrastructure development and their improvement as per necessity,
- iv. To make required facilitation for improving town hygienic system, for clean, systematic and prosperous municipality,
- v. To receive investment of bilateral, multilateral and international institutions and organizations upon approval of Government of Nepal and to mobilize the same in urban infrastructure development,
- vi. To mobilize capital through financial instruments including share, debenture and bond for investment in the urban infrastructure development project in Government of Nepal, provincial government and local level,
- vii. To support provincial government and local level in their capacity enhancement for the implementation of urban infrastructure development projects.
- viii. To invest in urban infrastructure development project selected or recommended by Government of Nepal, provincial government and local level in line with public private partnership concept
- ix. To provide consultancy service for comprehensive feasibility study, project evaluation, and for implementation and operation of urban infrastructure development projects proposed by provincial governments and local governments.

### 7.3 Board Structure of UIDC

Urban Infrastructure Development Corporation Act has envisioned and proposed two-tiered governing board structure as described hereunder;

- Directive Committee: This Directive Committee (DC) shall be the apex body of organization with role and responsibilities (i) to approve policy and long-term strategy of the institution, (ii) to provide necessary direction and facilitate required coordination among federal government, province government and local government to achieve the objectives of UIDC. This steering committee shall be chaired by the Minister of Ministry of Urban Development (MoUD) with other member representatives from federal ministries, province ministries, Mayors, sector experts and Chief Executive Officer as Member Secretary.
- Board of Directors: This committee has been proposed as a second tier of the apex body with the role and responsibilities for formulation of bylaws, guidelines and for approval the program and budget in line with approved policy, long term planning and organizational direction provided by DC. The proposed structure is chaired by the Secretary of MoUD with member representatives from federal ministries, sector experts and Chief Executive Officer as Member Secretary.

### 7.4 Authorized Capital and Financial Sources:

- i. The authorized capital of the corporation shall be twenty billion rupees.
- ii. Authorized capital shall be prescribed by GoN
- iii. GoN may increase and decrease authorized capital and capital structure as per the requirements of the corporation.
- iv. The capital structure of the corporation shall be as prescribed by GoN.
- v. The corporation shall issue and collect paid up capital as prescribed upon approval of GoN.
- vi. Any amount received from federal, province and local government
- vii. Loan, grant or other economic assistance from bilateral, multilateral and international organizations/institutions, non-governmental organizations/institutions, private sector, commercial bank and other financial institutions or bodies
- viii. Income generated from investment of the corporation
- ix. Bequeath or gift received from various sources
- x. Income generated by issue of debentures and from selling of property of the corporation pursuant to the prevailing law.

## CHAPTER 8: BUSINESS PLAN

### 8.1 Vision

To be a leading and sustainable financial intermediary for Urban Infrastructure Development in Nepal.

### 8.2 Mission

Contribute to sustainable improvement of the economic and social standard of Nepalese citizens by facilitating efficient and effective urban infrastructure asset creation and by aligning urban services in the emerging national development paradigm.

### 8.3 Core Values

Core values of the institution will be as following:

- Improve quality of life, especially of urban residents, through enhanced debt financing for urban infrastructure development projects,
- Contribute to socio-economic development of Nepal through sustainable urban infrastructure financing.
- Explore and apply financing and non-financing innovative modalities for the urban infrastructure development and municipal financing

### 8.4 Goals

TDF strives to achieve following specific goals:

- Transform the institution into a visible and sustainable financial intermediary by 2024.
- Ensure a strong resources base to finance urban infrastructures with defined capital structure.
- Articulate demand base approaches and achieve target of NRs. 20 billion of investment as on FY 2023/2024.
- Mobilize financial resources from both domestic and international markets through project bonds.

### 8.5 Strategies

Following strategies have been envisaged in this business plan to achieve the targets by 2024:

#### 8.5.1 External strategies for creating enabling environment

Following strategies have been formulated for effectively operating TDF's business in its external environment and to ensure efficient service delivery system for its clients and stakeholders;

- i. Enact and implement the UIDC Act
- ii. Collaborate with the government's line agencies for the implementation of National Urban Policy and National Urban Development Strategy.
- iii. Collaborate with Office of Investment Board of Nepal (OIBN) and DPs for debt financing in the PPP projects.
- iv. Collaborate with Nepal Rastra Bank (NRB) and initiate for inclusion of revenue generating urban infrastructures as the specific lending sector in NRB lending directives for promoting Banking & financial institutions (BFIs).
- v. Promote non-financing and blended-financing mechanisms for financing urban infrastructures.
- vi. Collaborate with International financial institutions (IFIs)/ National financial institutions (NFIs), insurance companies and employment provident fund (EPF) for the consortium financing.
- vii. Improve collaboration and coordination in partnership with the National Planning Commission, different government departments, corporate entities like Nepal Telecom, National, Housing Company, Cooperatives and other related funds for the blended financing.
- viii. Initiate for the improvement of borrowing capacity of TDF and clients
- ix. Collaborate with NNRF to prepare grant allocation and credit management policy for sub-national governments.
- x. Explore and mobilize alternative financial resources for financing various infrastructure development sectors.
- xi. Collaborate with the government's line agencies and municipalities to implement the provision of intercepting central government transfers in case of loan default
- xii. Creating enabling context for issue of municipal bond or project-based bond for urban infrastructure financing

- xiii. Collaborate with GoN and DPs for establishment of a pooled fund within TDF, under a Joint Framework Agreement (JFA), as provisioned in the foreign aid policy of GoN
- xiv. Establish a network with the international organizations for knowledge exchange and capacity development through Technical Assistance (TA) and exposure programs.

### 8.5.2 Internal strategies for strengthening TDF

Besides, developing the external strategies for creating enabling external environments, following internal strategies have been considered in this business plan for strengthening TDF.

- i. Formulate new rules, by-laws, and guidelines in accordance with proposed UIDC Act
- ii. Update adequate organizational policies and procedures for smooth operation of regular business process of TDF
- iii. Continue institutional reform process to enhance the capacity of TDF for implementing its proposed Business Plan.
- iv. Establish a system of project identification, project appraisal, project implementation and monitoring and evaluation for effective and efficient service delivery as a financial intermediary.
- v. Ensure implementation of resilient and green infrastructures.
- vi. Restructure and reform organization structure in accordance with expected growth as UIDC and reform.
- vii. Develop and adopt Risk Management Framework (RMF) to ensure loan security and loan recovery.
- viii. Establish system automation for enhanced MIS, i.e., integrate management software with MIS.
- ix. Adopt a performance-based monitoring system and mechanism for improved service delivery.
- x. Implement the step-in-right to intercept IGFT in case of default loans.
- xi. Adopt international standard key financial indicators for enhancing service delivery system of TDF and transform its corporate image as a well-recognized Prudential Financial institution, nationally and internationally
- xii. Establish an appropriate communication and grievance handling mechanism within TDF
- xiii. Conduct necessary study for defining the long-term vision, mission, goals and core values of TDF.
- xiv. Introduce market-base interest rate for the financing to urban infrastructure.
- xv. Expand TDF's services to provincial level
- xvi. Apply performance-based appraisal and incentives to the employees of TDF
- xvii. Focus on strategic project finance and development.
- xviii. Develop TDF as a Center for Excellence.

### 8.6 Program Portfolio and Plans

Currently, TDF is financing different urban infrastructure projects by mobilizing GoN and DPs funds. Most of the financing sources generated from earmark funds, which has lesser leverage to investment compared with other sources of funds. So, the major investment portfolio of TDF is based on setout terms and conditions for its sector projects. Hence, TDF as a financial intermediary needs to focus on generating open excess funds and also investment in multi sectors of urban infrastructures. The ongoing and proposed programs and plans are shown in Table 9 and Table 10, respectively.

**Table 9: Ongoing programs and plans**

SN	Programs	Sources	Plan for Investment Targets in 4 Fiscal Years (NRs in Millions)				Grand Total for Four Years
			2020-21	2021-22	2022-23	2023-24	
1	TDP II/III	KfW	180.00	100.00	-	-	<b>280.00</b>
		GoN	90.00				<b>90.00</b>
2	STWSSSP III	ADB	120.00	-	-	-	<b>120.00</b>
3	UWSSSP	ADB	600.00	340.00	355.00	250.00	<b>1,545.00</b>
4	UIDP	GoN	855.50	1,000.00	1,250.00	1,500.00	<b>4,605.50</b>
5	Co-Finance (WSSS)	Equity	380.22	150.00	180.00	200.00	<b>910.22</b>
6	MFCB	EU/Grant	58.90	86.08	90.00	-	<b>234.98</b>
<b>Total</b>		-	<b>2,284.62</b>	<b>1,676.08</b>	<b>1,875.00</b>	<b>1,950.00</b>	<b>7,785.70</b>

**Table 10: Proposed programs and plans**

SN	Programs	Sources	Plan for Investment Targets in 4 Fiscal Years (NRs in Millions)				Grand Total for Four Years
			2020-21	2021-22	2022-23	2023-24	
1	TDP IV	KfW	-	200.00	300.00	500.00	<b>1,000.00</b>
2	GCF	GCF/Loan	-	-	1,000.00	1,750.00	<b>2,750.00</b>
		GCF/Grant	-	-	100.00	320.00	<b>420.00</b>
3	Urban Infrastructure Development	ADB/WB/AIIB/others	-	400.00	800.00	1,000.00	<b>2,200.00</b>
4	PPP Project	Existing Equity	100.00	450.00	600.00	500.00	<b>1,650.00</b>
		Bond	-	-	200.00	300.00	<b>500.00</b>
5	Urban Development Program	TDF Equity (RF)	494.30	150.00	300.00	350.00	<b>1,294.30</b>
6	Urban Sustainable Transport Project	New Source	-	-	100.00	200.00	<b>300.00</b>
		TDF Equity	10.00	10.00	15.00	15.00	<b>50.00</b>
7	Co-Finance (Urban Infrastructure)	New Equity	-	250.00	350.00	500.00	<b>1,100.00</b>
		GoN/Loan	-	150.00	300.00	500.00	<b>950.00</b>
<b>Total</b>		-	<b>604.30</b>	<b>1,610.00</b>	<b>4,065.00</b>	<b>5,935.00</b>	<b>12,214.30</b>

## 8.7 Proposed Investment Products and Services

It is imperative that TDF needs to enhance and expand its existing product portfolio to offer a comprehensive range of products to urban infrastructure projects formulated in the country. Moreover, TDF needs to experiment beyond the traditional model of financing where projects are conceived and implemented by local level governments and its agencies. Proposed model are as follows:

### 8.7.1 Fund-based products

Different financing windows are necessary to support sub-national governments' financing needs and their demands with better financing terms and conditioning for the implementation of their prioritized development projects. TDF offers a comprehensive range of fund-based products under different financing windows, as elaborated below:

**a) Loan Product:** The loan facility will remain as the main product for TDF. However, loans need to be provided with varying tenors and interest rates linked to underlying project cash flows. Long tenor funds may be concessionary in nature depending upon the requirement of projects. For instance, commercially viable projects may be financed with relatively shorter loan tenors as compared to sewerage or water supply projects which may require loan tenors up to 25 years.

**b) Variants of Loan Product:** In addition to the loan product with varying maturities and interest rates, its variants such as subordinated debt can be provided to projects. Such products can be deployed for allocating higher levels of risk in projects implemented in the PPP model. Typically, TDF can provide a subordinated loan to projects in the construction phase, whereby TDF agrees to subordinate its rights to those of other lenders, and agrees to get repaid after senior lenders dues are settled. As a subordinate lender, TDF would get higher interest rates to compensate it for assuming higher level of risks. These loans can subsequently be refinanced by bank loans as the project enters operational phase and cash flows stabilizes.

**c) Equity Products:** Currently, TDF may not be in a position to take equity exposures in projects. To begin with, TDF, for piloting in the public transport sector, may identify institutional, implementation and financing mechanisms for projects. Some of these initiatives may be domiciled in Special Purpose Vehicles (SPV) in which TDF can provide the initial capital for project preparation. This seed capital can then divest in favor of a selected private sector developer or Government agency which is identified for implementation.

**d) Municipal Bond /Infrastructure Development Bond:** Bond, in terms of financial resources mobilization for the infrastructure development, has been practiced within different financing models in various countries to raise funds from domestic and international markets. TDF as a financial intermediary sustains urban infrastructure development with local level engagement. As Nepalese constitution has granted devolution of power to the sub-national

government, eventually, different urban locations with support of the local Municipal government will become an economic hub in the long-run. With this background, to some extent municipal bonds could become a potential product for the financial resources mobilization required for urban infrastructures development. Hence, TDF is also planning to introduce this tool for the project finance of the municipalities.

**e) Special Purpose Vehicle:** TDF loan can be financed through SPV for PPP model projects under municipal guarantee. Generally, SPV can also be set up by the municipalities for specific projects to promote and engage the private sector. Besides, TDF can also finance the loan with technical assistance. However, municipalities need to formulate a PPP policy in response to risk arising from such a financing vehicle. TDF needs to provide support to municipalities for formulating PPP policy with viability gap funding or investment from the municipality for promoting private sector at local level and loan financing through SPV.

### 8.7.2 Non-fund-based products

**a) Credit Enhancement Product:** TDF needs to provide full and partial guarantees to debt issuances, pooled finance structures as well as to project SPVs floated by the borrowers. This would attract more project sponsors and projects to access the capital markets for funding. Credit enhancement can be provided either on the strength of TDF's own credit rating or TDF can act as an intermediary through whom the credit enhancement products can be distributed to development projects in Nepal. For instance, ADB offers partial credit guarantees as a credit enhancement product. TDF can also explore avenues for availing these enhancements for projects developed/supported by the institution itself. Such guarantees would be within prudential limits set by the rating agencies without any dilution in its present credit rating.

**b) PPP Financing:** While PPP financing might take the time to develop its capital market, TDF needs to continue strengthening its PPP environment, and create a favorable investment environment and invite private sector investors to partner with the local level government to fill the funding gap for urban infrastructure development. Not only there is a much needed requirement for capital for infrastructure development, private sector investments can also encourage Research and Development (R&D) activities to yield productivity gains and effective operation and maintenance of the asset.

In Nepal, although PPP policy, Public Private Partnership and Investment act/regulation has been approved, there has been limited progress in the area of procurements documentations and in generation of various relevant and standard policy frameworks. Even, TDF is yet to come out with PPP policy related standard documents particularly for the municipalities necessary to create an enabling environment for the private sector to engage in PPPs.

**c) Leveraging Climate Finance:** Incremental investments to decarbonize the Asian energy sector alone are estimated at a net 21 trillion USD or 600 billion USD per annum. Considering current global climate finance, there is a need to decarbonize economies consistent with the Paris Agreement 2016 and about 391 billion USD were invested globally, out of which 17 billion went to South Asia in 2014. As a Least Developed Country, Nepal can leverage the finance from dedicated climate-related international funds established under the United Nations Framework Convention on Climate Change (UNFCCC). Among many funds, Nepal has projects supported by Least Developed Countries Fund (LDCF), Adaptation Fund (AF) and Global Environment Facility (GEF). In addition, Green Climate Fund (GCF) is also available for funding (Chhetri, 2016). Areas prioritized by Nepal's Climate Change Policy and National Adaptation Programmes of Action (NAPA), are to a large extent aligned to the GCF (Chhetri, 2016). Hence, it is the right time for the country to scale up the development paradigm by investing and encouraging infrastructure investment on low-carbon pathways. Besides, Nepal has to create a coherent path towards sustainable development in the form of "Low-carbon resilient development (LCRD)", following the developing countries who have innovated a range of initiatives to integrate the climate change and development agendas (Rai et al., 2015). In this regard, TDF had already initiated the process for obtaining accreditation to GCF as a Direct Access Entity (DAE), which would definitely enable the institution to access climate finance. Hence, TDF will initiate the groundwork for preparation of the project pipeline for accessing GCF.

**d) Energy Efficiency Financing Model:** TDF has been promoting Energy Efficiency (EE) market development in public infrastructure assets financed by TDF for sustainable development. In this context, TDF intends to offer EE Services such as TA to carry out Investment Grade Energy Audits (IGEAs) and embedding the concept of EE in the design phase of the project and other related services on demand basis. Likewise, TDF intends to come up with an Energy Efficiency Financing model as a product for financing EE retrofitting projects to reduce operating cost and enhance revenue from the infrastructure asset. To achieve this, TDF will work with GIZ supported Nepal Energy Efficiency Programme (NEEP) and create EE revolving fund, which will be deployed to the energy efficient projects. Similarly, TDF will continue the capacity building programme for TDF staff as well as clients by establishing separate EE cells within TDF.



**e) Land Value Index and Tax Calculator:** Land value index is used for the purpose of valuation of land especially for the purpose of land acquisition, compensation and tax assessment. In Nepal, Land Acquisition Act 2034 prevails for the purpose of land acquisition and compensation. However, a weak information management system and outdated acquisition process still remains applied in Nepal. The Local Government Operation Act, 2074 has provisioned the rights of land registration and its valuation in line with the Constitution. The current practice of land valuation in urban areas also remains outdated, land values are calculated by the municipality for the purpose of property tax and land tax only reflects 50% or less as compared to fair market price. At the same time, the municipality recommends the same land with revaluation of market price for the purpose of banking loan and foreign education. With this type of malpractices at local level, municipalities are losing huge amounts of revenue. Thus, a scientific land valuation guideline or method is necessary for the purpose of compensation and tax calculation at municipal level. TDF as a lender for the municipality can develop a guideline and a robust method by capturing value changes of the property in comparison with fair market price for enhancing internal revenue and borrowing capacity through the effective system of land value index. Development of Tax calculator based on land value index can be replicated in different municipalities. Further, this system of land value index will also support the Federal and Provincial Government for land acquisition and compensation when procuring the land for infrastructure development.

**f) Technical Assistance:** TDF can also utilize Technical Assistance (TA) as non-fund based product made. This product can be deployed for the following reason:

- For preparation of sub-regional/functional and city development plans
- Preparation of detailed project reports complying with TDF appraisal criteria and also with multilateral lenders such as KfW, ADB, WB and GCF
- Formulation of revenue improvement action plan and comprehensive financial plan of municipalities in collaboration with TDF
- For undertaking monitoring and supervision of projects
- Capacity development of municipalities and municipal staffs
- Any other relevant activities deemed as appropriate by TDF.

## 8.8. Business Plan

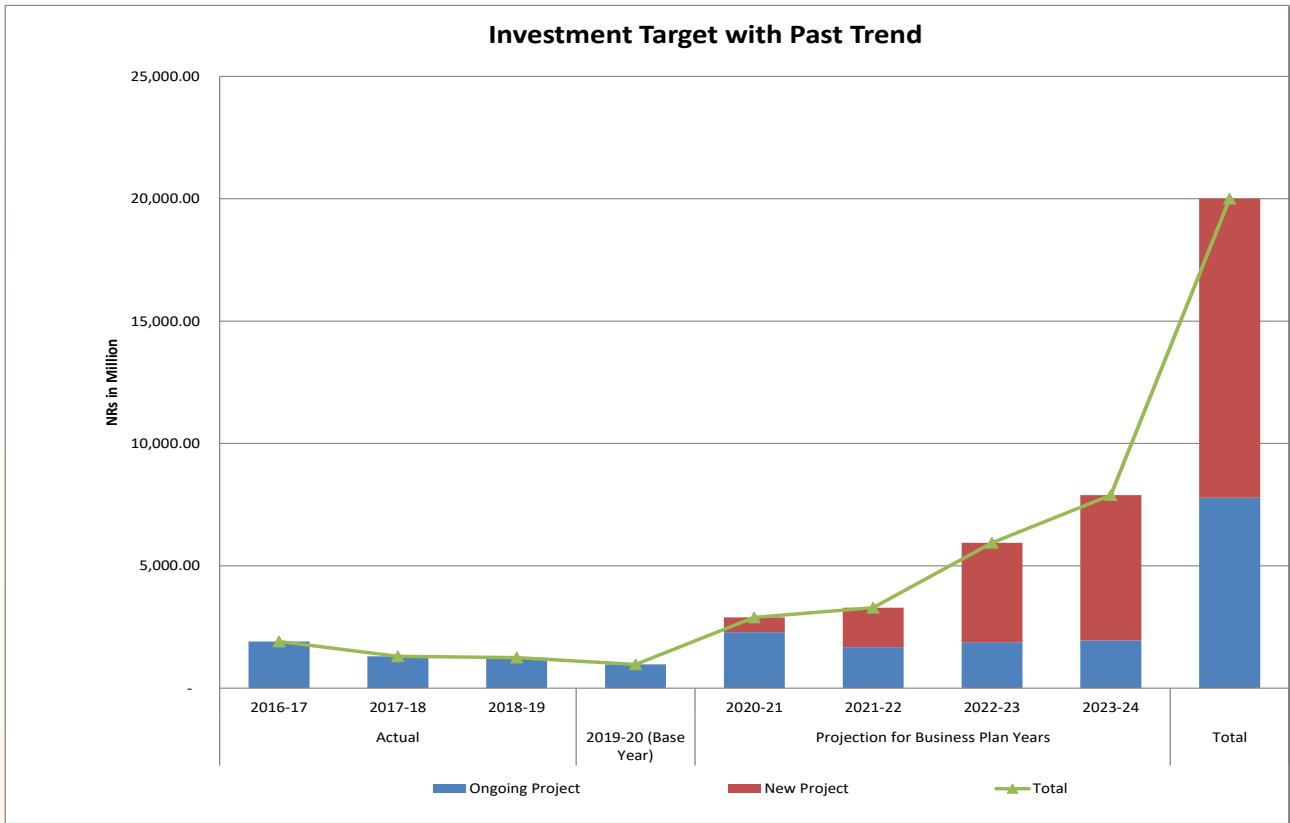
On the basis of above assessments, SWOT analysis identified in the previous chapter, strategies, together with financial models and GoN commitment for transformation of TDF into UIDC, this Business Plan of TDF for four years (FY 2020/21- 2023/24) has been prepared. Two key components of the business plan, has been elaborated in following sub-sections (i) business development plan and (ii) institutional development plan.

### 8.8.1 Business development plan

Based on market assessment of municipal finance gap, available funds with TDF committed by various DPs and GoN, existing and proposed strategies (for financial resources mobilization, loan recovery and equity mobilization), following business targets have been proposed for the period of FY 2020/21- 2023/24.

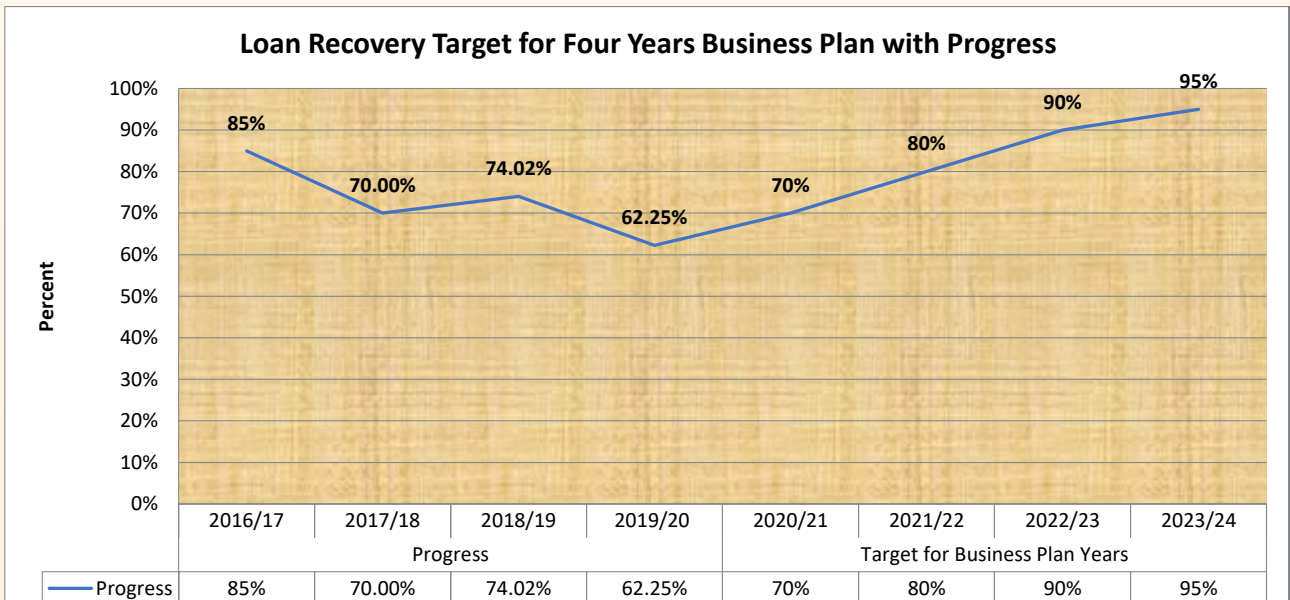
**a) Financial Resources Management Targets:** In the present context, traditional financial sources are inadequate for the urban infrastructure development. Therefore, TDF is planning to introduce various financial tools for generating and mobilizing financial resources as a financial intermediary. These financial tools include, public equity collection, new DPs' fund mobilization, PPP financing, and municipal bonds. The fundraising target has been set at NRs 12,970 million from new resources and NRs 7,030 million from existing ones. (Annex I)

**b) Investment Targets:** A total investment NRs. 20,000 million is set of investment targets for the four years; out of which, the loan will be NRs. 19,255 million and the grant of NRs. 745 million. Furthermore, disbursement for ongoing and new projects will be NRs. 7,786 million NRs. 12,214 million, respectively. Investment target has been planned in two categories: **i) Investment Plan A, ii) Investment Plan B.** Plan B would be considered for the performance indicator with yearly basis review. Historical trends in investment and new targets are shown in **Figure 4.** (Please refer to Annex II).



**Figure 4:** Historical trends and projected investment targets

**c) Loan Recovery Targets:** With the application of robust project appraisal and security mechanism, together with a dedicated team for loan recovery as proposed in the strategy and the Business Action Plan (BAP), loan recovery target is set as 95% by the end of FY 2023/24. It is illustrated in Figure 5 along with historical trends.



**Figure 5:** Historical trend and Loan Recovery Targets

**d) Loan Repayment Targets:** Government has been providing loans under different modalities of financing to TDF and the institution disburses loan to its clients as per the well-defined terms and conditions in Loan Agreement between MoF and TDF. Generally, every line of credit has a different grace and maturity period for loans. TDF has to repay to the GoN accordingly. TDF's loan volume is in increasing trend over the years, with a total loan for FY 2019/20 was NRs. 4,665 million. Based on grace and maturity period of loan repayment, the target for loan repayment (in NRs. millions) is set at 225.9, 225.9, 225.9 and 280.3 for FY 2020/21, 021/22, 022/23 and 023/24, respectively.

**e) Revenue and Expenditure Targets:** As per the business targets set in this business plan, revenue target is also set to increase. The gross revenue which was NRs. 568 million in the base FY 2019/20 is projected to increase to about NRs. 653 million in FY 2020/21, NRs. 737.90 million in FY 2021/22, NRs. 1,350.39 million in FY 2022/23, and NRs. 2,181 million in FY 202/24. Effective measures for reducing unnecessary expenses have been implemented with an effective internal control system. Hence, increased revenue with expansion of business has been taken into account for increasing net income.

**f) Capital Structure Target:** Prevailing Act of TDF has not defined the volume of capital structure; however, such provisions are made in the new Act of UIDC. Considering the provisions made in the proposed strategies and the action plans, TDF targets to increase its equity from NRs. 5.9 billion to about NRs. 20 billion by the end of FY 2023/24 (Annex IV).

### 8.8.2 Institutional development plan

Overall, the business plan of TDF has been prepared, acknowledging and anticipating due transformation of TDF into UIDC. Hence, an institutional reform has become imperative for achieving the targets enlisted in this business plan. Besides, a long-term prospective is required to reflect on, review and revise policies, procedures and organizational structures. Following organizational framework, activities and key result areas have been as elaborated hereunder;

#### a) Proposed Organizational Structure Framework:

TDF is the only financial intermediary entity within Nepal set-up for the urban infrastructure development, with long term financing modalities, operating as a sub-national government institution. TDF has been utilizing debt financing approach for development of urban infrastructure having internal operating standards set out by the institution itself. Since, TDF is transforming to UIDC with new policy framework, organizational mandate and operating modalities, TDF aims to establish Research and Development (R&D) Department to ensure achievement of the overall objectives in accordance with its business plan. Based on the proposed organogram to ensure the efficient function of its components as per requirement of Business Plan (TDF as well as Proposed UIDC), the following hierarchy will be installed and maintained:

- Two tiers of Apex body (1. Directive Committee, 2. Board of Director)
- Sub-Committees (as necessary)- under the Board of Directors
- CEO as the Administrative Chief of the organization
- Departments (Business) under the CEO (Headed by Director)
- Divisions under each department - headed by Manager
- Province level branches - headed by Deputy Manager/ Branch Manager
- Task Team / Cell/Unit for dedicated business (Insource/Regular)

**b) Action Plan to Achieve the Key Result Areas:** Time-bound action plans together with 15 key result areas have been tabulated in **Table 11**.

**Table 11:** Time-bound actions plans with key result areas have been presented in the table below

Key Result Area	Task	Activity/Action	Timeframe	Responsibility
<b>Business Development and Institutional Development (SUPPLY-SIDE)</b>				
<b>1. TDF transformed into UIDC</b>	<ul style="list-style-type: none"> <li>Endorse UIDC Act 2020 from the parliament and enact</li> </ul>	<ul style="list-style-type: none"> <li>Follow-up/lobby for approval of new UIDC Act</li> <li>Draft Rule of UIDC Act and get approved</li> </ul>	June 2021 July 2022	Parliament/ MoUD/TDF GoN/MoUD/ TDF
<b>2. TDF restructured to take up role of UIDC</b>	<ul style="list-style-type: none"> <li>Develop Institutional Development Plan (Annex-V)</li> </ul>	<ul style="list-style-type: none"> <li>Enact bylaws, financial procedures and business operations.</li> <li>Conduct Organization &amp; Management (O&amp;M) survey.</li> <li>Prepare HR Plan &amp; Human Resource management.</li> <li>Prepare Assets (office building ) and Logistics plan</li> </ul>	Aug 2021 Aug 2021 Sept 2021 June 2024	TDF/MoUD TDF/ MoUD, TDF/Board/PSC TDF/ Board
<b>3. TDF's capital base restructured</b>	<ul style="list-style-type: none"> <li>Consolidate existing sources of capital and define capital structure</li> </ul>	<ul style="list-style-type: none"> <li>Approve the capital structure</li> </ul>	Dec 2021	MOUD/ TDF/ Board
<b>4. TDF's credit rating improved</b>	<ul style="list-style-type: none"> <li>Enhance borrowing capacity of TDF</li> <li>Adopt innovative non-grant financing tools</li> <li>Adopt non-grant financing mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Conduct credit rating of TDF by independent credit rating agency</li> <li>Establish 'Proof-of-concept' on borrowing from the market</li> <li>Prepare guidelines for non-grant financing options and borrowing capital from the market</li> </ul>	March 2023 April 2022 June 2021	GoN/TDF/ GoN/MoUD/ TDF /Board TDF/Board
<b>5. Increased investment targets achieved</b>	<ul style="list-style-type: none"> <li>NRs 20 Billion in 4 years (Annex- II and III)</li> </ul>	<ul style="list-style-type: none"> <li>Initiate discussion with GoN, development partner (e.g., ADB, WB, AIIB) for extension and new programs</li> <li>Initiate co-financing schemes in drinking water/sanitation sector</li> <li>Increase GoN contribution in Revolving Fund and UIDP Projects</li> </ul>	2023/24	TDF/Board
<b>6. Debt recovery improved</b>	<ul style="list-style-type: none"> <li>Achieve up to 95% of recovery</li> </ul>	<ul style="list-style-type: none"> <li>Prepare Loan Recovery Policy and Guideline and implement</li> <li>Debt Collection Management System in place</li> </ul>	Dec 2020 Dec. 2021	TDF/ Board TDF

Key Result Area	Task	Activity/Action	Timeframe	Responsibility
<b>7. International network for knowledge sharing/Capacity development established</b>	<ul style="list-style-type: none"> <li>Established the relation with international organizations</li> </ul>	<ul style="list-style-type: none"> <li>Take initiation to identify and establish affiliation/ relation with suitable organizations in the overseas</li> </ul>	2023/24	TDF
<b>8. New business portfolio / sectors identified and introduced</b>	<ul style="list-style-type: none"> <li>Design Product and new Business Portfolio for TDF</li> <li>PPP financing model</li> <li>Leveraging Climate Finance</li> <li>Introduce non-grant financing mechanism</li> <li>Introduce Pool Financing mechanism in consortium with other financing entities</li> <li>Public Transport Project Financing</li> <li>Financing Land Development/</li> </ul>	<ul style="list-style-type: none"> <li>Conduct study on product design and new business portfolio</li> <li>Project structuring and implementation by engaging Private Sector in urban infrastructure development in PPP modality</li> <li>Accessing GCF for project co-financing</li> <li>Issuing project-based bond for urban infrastructure financing</li> <li>Project structuring and implementing through pool financing model</li> <li>Scale up Public Transport Project Financing</li> <li>Financing Land Development/ Township Development in selected municipalities</li> <li>Financing public housing development project in</li> </ul>	Jan 2021 Dec 2021 Dec. 2022 July 2023 Dec. 2022 Dec. 2022 Dec. 2022 Dec. 2022	TDF TDF TDF/MoF/ NDA, GCF GoN/ TDF / Board TDF/ Board TDF/ Board TDF/ Rastriya Aawas Company TDF/ Rastriya Aawas Company
<b>9. Automation system established</b>	<ul style="list-style-type: none"> <li>Township Development projects</li> <li>Housing Development by public sector</li> <li>Update an upgrade Management Information System (MIS )</li> </ul>	<ul style="list-style-type: none"> <li>association with Nepal Aawas Company</li> <li>Conduct an ICT audit.</li> <li>Develop the MIS system with integration of all software</li> </ul>	Dec 2020 July 2021	TDF TDF
<b>Business Development and Institutional Development (DEMAND-SIDE) :</b>				
<b>10. Revenue base of municipalities (clients) improved</b>	<ul style="list-style-type: none"> <li>Framework borrowing capacity assessment approve</li> </ul>	<ul style="list-style-type: none"> <li>Establish mechanism for updating of credit worthiness data of all municipalities and other clients</li> </ul>	July 2021	TDF/ Board

Key Result Area	Task	Activity/Action	Timeframe	Responsibility
<b>11. Improved tariff system for municipal utilities designed</b>	<ul style="list-style-type: none"> <li>Establish a functional system for recommending / fixing tariff system at central/ local level</li> </ul>	<ul style="list-style-type: none"> <li>Develop guidelines for setting tariff for municipal utilities/ sectors (water, waste management, sewerage etc.</li> <li>Promote establish institutional mechanism for setting tariff</li> </ul>	July 2021	TDF
			July 2022	TDF
<b>12. Capital investment for urban infrastructure and services in municipalities enhanced</b>	<ul style="list-style-type: none"> <li>Capital Investment Plan prepared and implemented in municipalities</li> </ul>	<ul style="list-style-type: none"> <li>Capital Investment Plan prepare and implement</li> <li>Implement capital investment in project financing</li> </ul>	Dec. 2022	TDF/ Municipalities
			Dec 2023	TDF/ Municipalities
<b>13. Credit rating of selected municipalities improved</b>	<ul style="list-style-type: none"> <li>Credit rating of selected municipalities piloted</li> </ul>	<ul style="list-style-type: none"> <li>Conduct credit rating of selected municipalities for readiness of issuance of municipal bonds</li> </ul>	July 2023	TDF/ Municipalities
<b>14. Project-based municipal bond issued</b>	<ul style="list-style-type: none"> <li>Piloting of urban infrastructure financed through issuance of municipal bond</li> </ul>	<ul style="list-style-type: none"> <li>Issuance of project-based municipal bond for project financing</li> </ul>	Dec 2023	TDF/ Municipalities
<b>15. Capacity Development of Clients</b>	<ul style="list-style-type: none"> <li>Technical assistance provided to all municipalities and WUAs</li> </ul>	<ul style="list-style-type: none"> <li>Continues training to clients in project development, management and revenue improvement</li> </ul>	Dec 2023	TDF/ Municipalities

**C) Institutional Development Action Plan:** Time-bound institutional development action plans under five broad categories Policy and procedures, Process & Implementation, HR Management and Capacity Development, Planning Monitoring & Evaluation and Fixed assets and Logistics are elaborated in Annex V.

## CHAPTER 9: MONITORING & EVALUATION FRAMEWORK

This Business Plan outlines the future direction of TDF and emphasizes on transforming its vision into reality at institutional level as well as in overall urban development of the country. Firstly, at institutional level, TDF aims at formulating business plans, ensuring both institutional strengthening as well as increase in business volume, whereas regarding its second-long term objective, TDF seeks to expand and maximize national level urban development goals of the government. Hence, for transforming these two complementary visions into reality, following two levels of performance indicators have been developed for monitoring and evaluation of the results of this business plan.

### 9.1 Internal Indicators (Output Level)

As explained earlier in the Business Targets, the internal financial indicators have been developed from the framework of Capital Adequacy indicators and these indicators are clustered into four categories as:

- i) Fundraising and Investment,
- ii) Asset Quality related indicators such as Loan collection, Recovery and Repayment and management related indicators,
- iii) Income, Expenditure & Profitability, and
- iv) Equity related indicators such as Capital Fund Structure. These categories have been elaborated in Annex VI.

Moreover, together with the achievements of these performance indicators and through the implementation of the action plans, this business plan assumes that TDF will eventually transform itself into a financially sustainable, operationally efficient and visible as leading financial intermediary institution for urban infrastructure development in Nepal.

### 9.2 External Indicators (Outcome Level)

The effective implementation of this Business Plan will not only strengthen the institutional capacity of TDF but also ensure that national targets of urban development set by the GoN are materialized through efficient investment activities of this institution. With the implementation of this Business Plan along with the proposed business action plan, TDF will contribute towards achieving the following outcomes by the end of this Business Plan period by FY 2023/24. Anticipated outcomes are as follows:

- i. Local governments will adopt and install the 'Pay for Service' concept for the development of urban infrastructures, and initiate critical and essential urban services to their citizens with its sustainable urban development projects. In due process, existing annual own source revenue of municipalities will increase from NRs. 16 billion to NRs. 22 billion.
- ii. The present level of borrowing capacity of Local Government will grow from 15 % to 25 %.
- iii. With the implementation of the projects financed by TDF, together with urban development projects from other agencies, 50 million urban dwellers (TDF financing coverage /total municipalities and multiple with 60 % urban population of total population) will receive basic urban services like sewerage, drainage, roads, solid waste management, water supply, bus parks, vegetable market, agro infrastructure and urban transport.
- iv. More importantly, urban infrastructure financing will orient towards the sustainable service delivery approach, beyond its existing construction-oriented approach. More than 80% of the assets created through TDF's investment will become operational with uninterrupted service delivery assurances.
- v. Urban sector will attract the domestic capital market by utilizing various alternative financing instruments such as Consortium Financing, PPP Financing, and Bond Market Financing, among others.

For ensuring the achievements of above mentioned internal and external performance indicators, TDF has formulated following monitoring and evaluation framework:

- i. Performance Contract between Executive Director and TDF Board to ensure mechanism to monitor and evaluate utmost professional commitment and obligation between operational head and policy makers.
- ii. Key Performance Indicators (KPIs) will be developed and applied for each of the business units of TDF.
- iii. Monitoring and measuring of KPIs will be conducted on trimester, semi-annual and annual basis.
- iv. Fair and inclusive Performance-based appraisal system will be established.
- v. Finally, concerned board members will be given adequate responsibility to ensure that the involvement of their sectors and institutions reflects the overall achievement of TDF. Here, trimester based monitoring will be made for evaluating sector based contributions.

This business plan expects for its comprehensive implementation that the MoUD will install and conduct impact level monitoring of urban development activities initiated by TDF in close coordination with other concerned ministries and local authorities. Finally, acknowledging that a business plan is a live document, dynamic and flexible enough to accommodate future uncertainties; this business plan will be updated annually, based on monitoring and evaluation of its performance and outcomes.



## CHAPTER 10: RISKS AND ASSUMPTIONS

Numerous external risk factors that can significantly dissuade and deter effective implementation of this business plan have been acknowledged assumed and visualized as follows:

- i. Inadequate borrowing capacity of municipalities, together with their reluctance to utilize and collect appropriate taxes, fees and tariffs mechanism for the loan repayment.
- ii. Lack of structural and organizational capabilities among municipalities to prepare, implement and operate urban development projects within targeted investment mechanisms proposed by TDF.
- iii. Possible delay in approval of UIDC Act from the parliament
- iv. Insufficient financial support from the Government regarding demanded fund (Loan & Grant) to TDF
- v. Delay in GCF accreditation
- vi. Lack of legal framework for floating Municipal Bond (MB) / Development Bond (DB)
- vii. Insufficient raising of targeted equity capital due unforeseen reasons
- viii. The upcoming election of Local level, Province level and Federal level
- ix. Ongoing COVID-19 crisis and its unassailable short term and long terms impacts on business strategy of TDF

However, for the mitigation of the above identified major risk factors, in this business plan following mitigation measures have been proposed:

- i. Formulate consensus for the proposed urban development investment between local level political parties, their representatives and major stakeholders by organizing consultative meetings and workshops. The business plan assumes that MoUD will coordinate with MoFAGA for organizing orientation programs that encourage executive officers and the municipal authorities to take ownership towards urban development projects especially managed through central government departments.
- ii. Aligned involvement of MoUD, MoFAGA and NNRF for launching appropriate revenue enhancement and technical assistance packages to the municipalities. This business plan assumes that Municipalities will consolidate wider public consultation among stakeholders to generate necessary consensus required before utilizing tariffs, fees and taxes for loan repayment.
- iii. GoN will provide necessary grants to support the municipalities and its users' committees for the Demand Side Management (DSM) services and also enhance their structural and functional capacities for preparing, implementing and operating projects financed by TDF.
- iv. MoUD will coordinate with NPC, MoF, MoFAGA, NNRF and related donor agencies for the approval of common loan and grant financing policy and also establish an open-access fund for TDF.
- v. GoN will adopt the Sector Wide Approach (SWAP) for urban sector financing.
- vi. Accepted Coordination between MoUD, MoFAGA, MoF and Municipality Association of Nepal (MuAN) for increasing the targeted equity of TDF and providing equity share to the municipalities.
- vii. Moreover, to overcome the impacts of unassailable COVID 19, this business plan assumes that, as an exclusive institution for financing urban development projects in Nepal, TDF will explore different opportunities and consider new avenues in urban areas along with its existing infrastructure investments.

Importantly, effective and successful implementation of this business incontestably relies on following key factors:

- i. assurance of adequate financial sources from GoN/DPs,
- ii. preparation of contingency plans and alternative modalities of financing by TDF,
- iii. when it comes to financing decision, TDF needs to focus on low risk sector and also expand its revenue base to sustain its the loan recovery efforts, and finally
- iv. establish the smart meter reading, e-billing and e- payment system in water supply and sanitation sector projects.

More importantly, as a part of comprehensive organizational commitment, this business plan assumes that representative board members of TDF from the concerned ministries will mitigate and overcome the risks associated with the concerned ministries. Similarly, TDF will develop KPIs with relevant criteria and apply these performance indicators for all business units unilaterally to achieve its proposed business targets. Furthermore, business plan assumes that the TDF Board will approve the HR Plan together with necessary logistics and performance-based incentive packages to the employees of this institution.

## Annex I : Financial Resources Mobilization Plan :

### a) Existing and Comitted Fund Mobilization Targets (in NRs Million)

SN	Programs	Sources	Plan for fund mobilizing in 4 fiscal years (NRs in Millions)				Grand Total for Four Years	Remarks
			2020-21	2021-22	2022-23	2023-24		
			Total of Year I	Total of Year II	Total of Year III	Total of Year IV		
1	TDP II/III	KfW/GoN	270.00	100.00	-	-	370.00	
2	Co- Finance (WSSSP)	Equity	380.22	150.00	180.00	200.00	910.22	
3	UIDP	GoN Comittment	855.50	-	-	-	855.50	
4	STWSSSP III	ADB	120.00	-	-	-	120.00	
5	UWSSSP	ADB	600.00	340.00	355.00	250.00	1,545.00	
6	PPP Projects	Retained earning/Equity	100.00	450.00	600.00	500.00	1,650.00	
7	Urban Development Program	Revolving Fund/Equity	494.30	150.00	300.00	350.00	1,294.30	
8	MFCB	EU	58.90	86.08	90.00	-	234.98	
9	Urban Sustainable Transport Project	TDF Equity /(USTF)	10.00	10.00	15.00	15.00	50.00	
<b>Grand Total</b>			<b>2,888.92</b>	<b>1,286.08</b>	<b>1,540.00</b>	<b>1,315.00</b>	<b>7,030.00</b>	

### b) Fund Raising Targets (in NRs Million)

SN	Programs	Sources	Plan for fund raising in 4 fiscal years (NRs in Millions)				Grand Total for Four Years	Remarks
			2020-21	2021-22	2022-23	2023-24		
			Total of Year I	Total of Year II	Total of Year III	Total of Year IV		
1	GoN	Loan ( UIDP)	-	1,000.00	1,250.00	1,500.00	3,750.00	
		Loan ( Co-Finance-Urban Infrastructure)	-	150.00	300.00	500.00	950.00	
2	New Equity	Share holders	-	250.00	350.00	500.00	1,100.00	
3	DPs	Loan	-	400.00	800.00	1,000.00	2,200.00	
4	PPP Projects	Bond	-	-	200.00	300.00	500.00	
5	Green Climate Fund	Loan	-	-	1,000.00	1,750.00	2,750.00	
		Grant	-	-	100.00	320.00	420.00	
6	TDP IV (KfW)	Loan/Grant	-	200.00	300.00	500.00	1,000.00	
7	Urban Sustainable Transport Project	New Sources	-	-	100.00	200.00	300.00	
<b>Grand Total</b>			<b>-</b>	<b>2,000.00</b>	<b>4,400.00</b>	<b>6,570.00</b>	<b>12,970.00</b>	
<b>Grand Total (Existing + New)</b>			<b>2,888.92</b>	<b>3,286.08</b>	<b>5,940.00</b>	<b>7,885.00</b>	<b>20,000.00</b>	

### Annex II : Ongoing Programmes: Business Plan Targets (in NRs Million)

SN	Programs	Sources	Plan for Investment Targtes in 4 fiscal years (NRs in Millions)				Grand Total for Four Years	Remarks
			2020-21	2021-22	2022-23	2023-24		
1	TDP II/III	KfW	180.00	100.00	-	-	280.00	
		GoN	90.00				90.00	
2	STWSSSP III	ADB	120.00	-	-	-	120.00	
3	UWSSSP	ADB	600.00	340.00	355.00	250.00	1,545.00	
4	UIDP	GoN	855.50	1,000.00	1,250.00	1,500.00	4,605.50	
5	Co-Finance (WSSS)	Equity	380.22	150.00	180.00	200.00	910.22	
6	MFCB	EU /Grant	58.90	86.08	90.00	-	234.98	
<b>Total (a)</b>		-	<b>2,284.62</b>	<b>1,676.08</b>	<b>1,875.00</b>	<b>1,950.00</b>	<b>7,785.70</b>	

### Annex III : Proposed Projects - New

SN	Programs	Sources	Plan for Investment Targtes in 4 fiscal years (NRs in Millions)				Grand Total for Four Years	Remarks
			2020-21	2021-22	2022-23	2023-24		
1	TDP IV	KfW	-	200.00	300.00	500.00	1,000.00	
2	GCF	GCF/Loan	-	-	1,000.00	1,750.00	2,750.00	
		GCF/Grant	-	-	100.00	320.00	420.00	
3	Urban Infrastructure Development	ADB/WB/AIIB/others	-	400.00	800.00	1,000.00	2,200.00	
4	PPP Projects	Existing Equity	100.00	450.00	600.00	500.00	1,650.00	
		Bond	-	-	200.00	300.00	500.00	
5	Urban Development Program	TDF Equity (RF)	494.30	150.00	300.00	350.00	1,294.30	
6	Urban Sustainable Transport Project	New Source	-	-	100.00	200.00	300.00	
		TDF Equity	10.00	10.00	15.00	15.00	50.00	
7	Co-Finance (Urban Infrastructure)	New Equity	-	250.00	350.00	500.00	1,100.00	
		GoN/Loan	-	150.00	300.00	500.00	950.00	
<b>Total (b)</b>			<b>604.30</b>	<b>1,610.00</b>	<b>4,065.00</b>	<b>5,935.00</b>	<b>12,214.30</b>	
<b>Grand Total (Existing + New)</b>			<b>2,888.92</b>	<b>3,286.08</b>	<b>5,940.00</b>	<b>7,885.00</b>	<b>20,000.00</b>	

## ANNEXES

### Investment Plan A:

### Annex II : Investment Plan B

Particular	Plan for Investment Targtes in 4 fiscal years (NRs in Millions)				Grand Total for Four Years	Remarks
	2020-21	2021-22	2022-23	2023-24		
Investment	2,888.92	3,150.00	3,250.00	3,711.08	13,000.00	

### Investment Plan B:

**Annex IV: Equity Capital Structure Plan : (NRs. in Billion)**

<b>SN</b>	<b>Particulars</b>	<b>Base Year 2019/20</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>	<b>Year 4</b>	<b>Remarks</b>
1	TDF (as per existing equity)	3.1	3.30	3.60	3.70	3.82	
2	GoN New Equity	2.7	3.50	5.00	8.50	10.50	
3	Municipality Equity (NRs. 10 million/Each Municipality)	-	-	0.50	1.20	2.93	
4	Provincial Government Equity (NRs. 250 million/Each Province)	-	-	1.00	1.50	1.75	
5	Public/Private/NFIs/IFIs	-	-	-	0.50	1.00	
	<b>Total</b>	<b>5.80</b>	<b>6.80</b>	<b>10.10</b>	<b>15.40</b>	<b>20.00</b>	

Annex : V : Institutional Development Plan. ( Amount in million)

Tasks	Key Activities	Responsibility	Indicators/Measures	Time Line	Budget Plan for 4 years				Total
					2020/21	2021/22	2022/23	2023/24	
<b>Rules &amp; Regulations</b>	Preparation of regulation in line with UIDC Act	ED	Prepared and approved by GoN	Year 1	1.00	-	-	-	1.00
	Update Employee Bylaws	ED/Board	Approved by Board	Year 1	0.30	-	-	-	0.30
	Update Financial Bylaws	ED/Board	Approved by Board	Year 1	0.20	-	-	-	0.20
	Update Investment Guideline	BPPD/ED	Report Prepared	Year 1	0.20	-	-	-	0.20
	Develop Integrated Loan and Grant Financing Guideline (Non-grant, pool finance, urban transport, agriculture, housing, township)	BPPD/ED/Board	Report Prepared	Year 1	1.00	-	-	-	1.00
	Prepare M & E Guideline	PME/ED/Board	Report Prepared	Year 1	0.10	-	-	-	0.10
	Prepare Loan Recovery Policy/Guideline	FHR/ED/Board	Report Prepared	Year 1	0.50	-	-	-	0.50
	Prepare tariff guideline of water supply and sanitation sector and Directives	PAD/ED/Board	Report Prepared	Year 1	0.10	-	-	-	0.10
	Prepare PPP Financing Guideline	BPPD/ED/Board	Report Prepared	Year 1	0.50	-	-	-	0.50
	Prepare Tariff guideline for Integrated Urban infrastructures	BPPD/ED/Board	Report Prepared	Year 1	5.00	-	-	-	5.00
<b>Policy &amp; Procedures ( Develop &amp; Update)</b>	Prepare Risk Management Framework	FHR/ED/Board	Report Prepared	Year 1	-	-	-	-	-
	Prepare TDF's Interest Spread Fixation guideline	FHR/ED/Board	Report Prepared	Year 1	-	-	-	-	-
	Prepare Project Appraisal guideline with Financial Model	PAD/ED	Manual updated	Year 1	-	-	-	-	-
	Prepare DPR preparation guideline	BPPD/ED	Format Updated	Year 1	-	-	-	-	-
	Prepare guideline project preparation, screening, priority and shortlisting	PME/ED/Board	Checklist Updated	Year 1	-	-	-	-	-
	Project development guideline to implement PPP projects	BPPD/ED	Guideline developed	Year 1	1.00	-	-	-	1.00
	TDF's Stakeholders mapping	BPPD	Report Prepared	Year 1	0.50	-	-	-	0.50
	Project financing guideline for PPP Project	BPPD/ED	Guideline developed	Year 1	0.50	-	-	-	0.50
	Update SOP in line with restructured organogram	BPPD/ED	updated	Year 1-4	1.00	-	-	-	1.00
	Re-engineering of TDF's System and Procedure	PMTA/FHR/ED	updated	Year 1-4	0.50	-	-	-	0.50
	Conduct a Organization & Management Study	Admin/ED	Prepared O & D study report	Year 1	1.00	-	-	-	1.00
	Prepare concept paper of equity capital raising	PAD	Report Prepared	Year 2	0.60	-	-	-	0.60
	Conduct Credit Assessment and Credit Rating of TDF	BPPD	obtained rating	Year 2-3	-	1.00	1.00	-	2.00
	Establish the strong security mechanism and Implement ESCROW account in selected municipalities and WUSCs	Investment and Recovery Section	Established ESCROW a/c in Problematic projects	Year 1-4	0.50	0.50	0.50	0.50	2.00
	Establish the system for borrowing capacity assessment of all municipality and other clients	PAD	System Established	Year 1-4	0.50	0.50	0.50	0.50	2.00
Enhance Reporting System	PME	Developed Standard format and reported on time	Year 1-4	-	-	-	-	-	
Establish Research and Development Cell	PME/ED/Board	Cell established	Year 2-4	0.50	0.50	0.10	0.10	1.20	

Tasks	Key Activities	Responsibility	Indicators/Measures	Time Line	Budget Plan for 4 years				Total	
					2020/21	2021/22	2022/23	2023/24		
<b>Process &amp; Implementations</b>	Establishing technical assistance and consultancy unit for municipalities and small towns	TACS	Established	Year 1-4	-	-	-	-	-	
	Prepare proposals for fund raising and technical assistance	PME/PAD/BPPD/ED	Proposals submitted	Year 1-4	-	-	-	0.50	0.50	
	Impact study of investment projects/sector	PME	Prepared Report	Year 1-4	2.00				1.00	
	Obtain accreditation from GCF and readiness	BPPD/GCF Cell	accredited	Year 1-4	1.00	1.00	1.00	1.00	4.00	
	Certification of ISO	BPPD	accredited by authority	Year 2		1.00	-	-	1.00	
	Develop the sector wise project bank	BPPD/PAD	project bank developed	Year 1-4	5.00	5.00	5.00	5.00	20.00	
	Establish the M & E system	PME	Established	Year 1-4	0.10	0.20	0.30	0.50	1.10	
	Conduct study of a rapid assessment impact of COVID-19	PME	Report Prepared	Year 1	-	-	-	-	-	
	Conduct a study on Municipal/Infrastructure bond issue	BPPD/PME/PAD	Report Prepared	Year 2	-	1.00	-	-	1.00	
	Develop the MIS with integration all computer software	PME	Integrated	Year 1-4	1.00	1.00	1.00	1.00	4.00	
	Conduct workshops on business promotion and procedures of TDF ( Urban Infrastructure Finance)	TACS	conducted	Year 1-4	-	0.50	0.50	0.50	1.50	
	Credit Rating of selected municipalities	TACS/BPPD	obtained rating	Year 2-4	-	1.00	1.00	1.00	3.00	
	Establish the system for borrowing capacity assessment of all municipality	PAD/TACS	System Established	Year 1-4	0.10	0.10	0.10	0.10	0.40	
	Develop network and renewal/new membership with (CDIA,CityNet,ICMA,TNUDF,HUDCO,IDFC)	PME	Renewed membership	Year 1-4	0.50	0.50	0.50	0.50	2.00	
	Prepare HR Plan (TDF/Projects) and needs of new branches	HRD/PME/ED	HR Plan prepared	Year 1	1.00	-	-	-	1.00	
	Hire senior position and projects staffs	HRD/ED	Staff placed	Year 1	2.00	-	1.00	-	3.00	
	Conduct different level trainings (professional/hands on / inhouse/outdoor)	HRD	conducted No..	Year 1-4	1.00	1.00	1.50	2.00	5.50	
	<b>HR Management &amp; Capacity Development (TDF and Clients)</b>	Training and twinning program for better exposures (abroad)	HRD/ED	conducted/visited	Year 1-4	1.00	1.00	1.00	1.00	4.00
		Support to municipalities in borrowing capacity	TACS/BPPD	Opened branch office	Year 3-4	0.50	0.50	1.00	1.00	3.00
Support to prepare RIAP of Municipality		TACS/BPPD/PAD	Report Prepared	Year1-4	1.00	1.00	1.00	1.00	4.00	
Support to prepare Business Plan of WSUCS		TACS/PAD	Report Prepared	Year 1-4	1.60	2.00	2.00	2.00	7.60	
Support to prepare project development/municipality /province		BPPD/ED	No.. Project developed	Year 1-4	5.00	5.00	5.00	5.00	20.00	
Provide training for Project identification & implementation, project management , financial management,contract management,procurement etc to Clients		TACS	No..training conducted	Year 1-4	1.00	2.00	3.00	4.00	10.00	
Support to prepare Capital Investemnt plan of municipality		PAD/TACS/BPPD	Pepered CIP	Year 1-4	2.00	2.00	2.00	2.00	8.00	
Support in preparing indicative/master plan of Municipality		PAD/TACS/BPPD	Prepared MP	Year 1-4	2.00	2.00	2.00	2.00	8.00	
Support to municipalities and WUSCs software training ( billing,accounting,ebidding online project registration)		TACS	No.... Of training completed	Year 1-4	1.00	1.00	1.00	1.00	4.00	

Tasks	Key Activities	Responsibility	Indicators/Measures	Time Line	Budget Plan for 4 years				Total
					2020/21	2021/22	2022/23	2023/24	
<b>Planning , Monitoring &amp; Evaluation System</b>	Establish monthly/quarterly/trimester/half-yearly/yearly reporting system	PME	Timely submitted report	Year 1-4	0.10	0.10	0.10	0.10	0.40
	Establish system to conduct evaluation ( formative/ process/outcome/ impact) : real time basis	PME	No of completed reports	Year 1-4	1.00	1.00	1.00	1.00	4.00
<b>Fixed Assets &amp; Logistics</b>	Construction of Office building	PMTA/FHR/ED	Constructed and shifted	Year 1-4	-	200.00	100.00		300.00
	NFRS Software for financial management	FHR	software installed	Year 1-4	5.00	5.00	1.00	1.00	12.00
	Automation system Enterprises level integrating in existing MIS .	PME	report generated by system	Year 1-4	2.00	2.00	1.00	1.00	6.00
<b>Total</b>					<b>52.40</b>	<b>239.40</b>	<b>135.10</b>	<b>35.30</b>	<b>460.70</b>

**Annex VI: Performance based Monitoring Indicators (Internal-Output Level)**

SN	Milestone	Base Year	Performance Indicators				Means of Varificatoin
		FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	
1	New Financial Resources Mobilization (Billion)	-	-	2.00	4.40	6.50	By Audit Report
2	Investment						
	Plan A (Billion)	969.00	2.88	3.29	5.94	7.89	By Audit Report
	Plan B (Billion)	-	2.88	3.15	3.25	3.72	By Audit Report
3	Recovery (Percentage)	62.25%	70%	80%	90%	95%	By Audit Report
4	Equity Capital raised (Billion)	5.8	6.80	10.10	15.60	20.00	By Audit Report
5	Regularity repayment to GoN (dues)	100%	100%	100%	100%	100%	No overdues
6	Develop of new organization structure (UIDC)	-	O & M/New Organogram				Approved and organogram placed
7	Required Human Resource Management	-	35%	65%	100%	100%	Minimum 2 director hired
8	Introduce of PPP Financing (at least 5 project)	-	1	1	1	2	Loan Agreement
9	Establish of Provincial Offices (Nos)	Proposed in BP	-	2	2	3	Established
10	Complete Credit Rating of TDF	Under assessment process	-	-	carried out credit rating		Published Rank
11	Accrediation from GCF	Under Process	Accrediated	AMA	Project started		Accrediated
12	Construction of Building	EOI for DPR	Construction started			Construction Completed	Shifted to office building
13	Accrediation from ISO	Internal Audit completed	-	-	-	Accrediated	Accrediated
14	Geographical (No. of Municipality) Coverage of Investment	Existing Coverage 74 municipalities and 94 towns	10 Municipality	16 Municipality	25 Municipality	50 Municipality	175 Municipality will be reached
15	Introduce of new project (At least One/DP based project)	Concept note prepared	Project Initiation		Project started		Financing Agreement with DP











# TOWN DEVELOPMENT FUND

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