



TOWN DEVELOPMENT FUND

Investment Guidelines, 2014

July, 2014

Kathmandu

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Chapter 1: Preliminary

It is expedient to make provisions for utilization of Town Development Programme Investment Reserve of the Town Development Fund for ensuring sustainable financing in order to achieve the objectives of the Town Development Fund Act, 1997.¹

In exercise of powers conferred by sub-section 2 of Section 36 of the Town Development Fund Act, 1997, the TDF has framed this Guidelines for Utilization of Town Development Programme Investment Reserve.

1.1 **Short Title and Commencement:**

- a) This document shall be called 'Town Development Programme Investment Guidelines 2014'.
- b) This guidelines shall come into force on and from such a date as decided by the Board.
- c)

1.2 **Definition:**

Unless the subject or context otherwise requires, in this guidelines,-

1. "Act" means the Town Development Fund Act, 1997.
2. "Applicant" means the applicant applying for a loan from the Town Development Programme Investment Reserve and other funds, wherever available.
3. "Board" means the Board of Directors constituted pursuant to section 14 of the Act.
4. "Borrower" means the borrower of a loan from the Town Development Programme Investment Reserve and other funds, wherever available.
5. "Fund" means the Town Development Fund established pursuant to section 3 of the Act.
6. "Guarantee" means any guarantee furnished with the Fund against any loan to be lent by the Fund.

¹ Financing agreement between MoF and KfW article 6 Elaborates about provision of the fund...



7. "Investment Promotion Committee" means committee formed under TDF Rules, 1997.
8. 'Lending and Grant Policy' means the common loan and grant policy approved by Board dated 25th April, 2011 including its amendment, if any, by the board from time to time.
9. "Investment" for the purpose of this guidelines includes investment by the Fund as per its Act and the subsequent Rules, Byelaws and Guidelines.
10. 'Standard Operating Procedures or SOPs' means the Standard Operating Procedures (SOPs) of TDF approved by TDF Board dated June 1, 2012 including its amendment, if any, by the Board from time to time.
11. "Local Body" means the local bodies as defined in the Local Self-Governance Act, 1999.
12. 'Town Development Programme' means Town Development Programme Phase I, II & III implemented with the financial support of the Government of Nepal and the German Development Bank (kfw).
13. "TDP Investment Reserve" means the Reserve created and maintained by the Fund through the recovery of principle and interests under Town Development Programme and any other reserves decided by Fund.
14. "TDP Investment Reserve Loan" means the loan lent by the Fund from the TDP Investment Reserve.
15. "Securities" means any instrument of the property, rights or others furnished with the Fund against the loan.

1.3 Objective:

Basic objective of the current policy for TDP Investment Reserve is to mobilize the existing financial resources for investment to municipal infrastructure in order to gradually ensure the institutional financial sustainability of the Fund.

The objectives of the financing in the infrastructure development projects under this guidelines are as follows:

- a) To create fund for TDF investment to the local bodies and other institutions related to urban development,



- b) To ensure sustainability of TDF,
- c) To encourage the leveraging/self financing capacity of LBs,
- d) To make TDF capable of investing in municipal projects independently.

1.4 Purpose:

The purpose of this guidelines is to set the policies and procedures for operation and management of the TDP Investment Reserve.

1.5 Sources of TDP Investment Reserve:

The followings shall be the sources of the TDP Investment Reserve:

- a) Repayment including the interest accrued, received or due from the loan investment under the Town Development Program -TDPI, II and III,
- b) Interest (accrued, received or due) from the investment of TDP Investment Reserve,
- c) Repayment of principal received from the borrower of TDP Investment Reserve,
- d) Interest and/or dividend accrued, received or due from investment of TDP Investment Reserve in the shares, bonds, debentures and/or fixed deposits,
- e) Any other amount as decided by the Board.



Chapter 2: Eligibility for TDP Investment Reserve Loan Finance

2.1 *Eligible Sectors:*

Projects eligible for TDP Investment Reserve Loan financing includes projects in all the areas in which TDF generally invests. Investment may be made in the projects in "Basic Social Services" or 'Revenue Generating Project' as mentioned in section 2(b) and 2(c) of the Act.

The categories of eligible sectors are given in Annexure I.

2.2 *Eligible Projects:*

- a) Projects which are given high priority in the capital expenditure program of the borrower.
- b) Support all kinds of urban infrastructure as per the Local Self Governance Act, 1999.
- c) Adopt the appropriate proven and most cost effective technology and technical norms and specifications.

If required, appropriate statutory and environmental clearances have been obtained and these are documented in the project evaluation report.

2.3 *Eligible Items:*

The TDF will finance the costs of civil works, equipments and goods. The TDF will not finance the land acquisition costs, and the working capital.

2.4 *Eligible Borrowers:*

The borrowers of TDF are municipalities, urbanizing Village Development Committees (VDC), District Development Committees (DDC), Urban Local Bodies Joint Committees (as per LSGA and Regulations), Town Development Committees (TDC), and public corporations/boards or any other urban development institutions as decided by the Board under the provision of TDF Act and Rules. For those borrowers, the following norms would be required:

- a) Maintain a ratio of Total Expenditure, TE (Recurrent) / Total Revenue, TR (tax and regular non-tax revenue including GoN regular Grants) < 1.
- b) Ensure that Debt Service, DS (Interest + Repayment)/ Total Revenue, TR < 30%.

- c) Having adequate internal control, accounting and financial management systems to produce information and reports on the implementation performance of the project being financed. The systems should provide for accurate and timely reports on the accounts (Source and Uses of funds) of the project and the physical performance of the key project components. In case borrowers do not meet these requirements, the TDF should set the conditions of sanction/disbursement of the sub-loan along with time bound action plans for implementation.
- d) Having adequate procurement/contract management system. In case, the borrowers do not have adequate system, they agree to implement recommendations of the procurement consultant sent by the TDF on streamlining of procurement systems/procedures and strengthening of staff within an agreed time-frame starting with the establishment of procurement management action plan as the minimum condition for the sanction or disbursement of the TDF loan.

In addition, all the borrowers should have the institutional capacity to implement the project and to operate and maintain the constructed facilities in a satisfactory manner. In case where the institutional capacity of the borrower is not adequate, the TDF may also request the project sponsor to procure the technical assistance services.

2.5 Minimum Requirement for Eligibility:

i. Credit Worthiness or Borrowing Capacity

The eligibility criteria in relation to credit worthiness of borrowers (Annexure II) specified in TDF Lending and Grant Policy shall be applicable to TDP Investment Reserve loan, namely:

- a) Maintain a ratio of Total Expenditure (TE) (Recurrent) / Total Revenue (TR) (tax and regular non-tax revenue including GoN regular Grants) < 1,
- b) Ensure that Debt Service (DS) (Interest + Repayment)/ Total Revenue < 30%,
- c) Debt service shall not be more than 25% of Operating Surplus,
- d) Have adequate internal control, accounting and financial management systems to produce information and reports on the implementation of the project being financed,



- e) Have adequate procurement/contract management systems,
- f) Have the institutional capacity to implement the project and to operate and maintain the constructed facilities in a satisfactory manner.

ii. Financial Feasibility and Business Viability

After borrowing capacity of the applicant is assessed, project financial feasibility and business viability shall be assessed considering the following:

- a) Economic/Revenue generating projects are viable on its own merits if the Net Present Value (NPV) is positive or Internal Rate of Return (IRR) is above the cost of capital.

Cost of Capital for Revenue Generating Project shall be taken to be interest payable on loan from GoN and other Loan taken by TDF. The Board may also fix the cost of capital based on the market rate wherever it finds appropriate to fix the rate as such.

In general, project shall be assessed with regard to their financial performance which shall give **at least an IRR of 3.5% above** the rate applicable for TDF.

- b) Undiscounted cumulative cash flow of the project over its life is positive. None of the years, in the life of the project except grace period if any, shall also show negative cash flow.
- c) Debt Service Coverage Ratio (DSCR): DSCR denotes the number of times the surplus generated by the projects can cover the debt service obligation. For TDP Investment Reserve investment, only a project that shows DSCR ratio of greater than 1 may be accepted.

To be eligible for investment from the TDP Investment Reserve, the project shall prove its business viability and financial feasibility in accordance with TDF Lending & Grant Policy and Standard Operating Procedures.

iii. Leverage/Self-financing

To be eligible for TDP Investment Reserve loan, contribution to the cost of the project from the applicants is mandatory. The extent of such contribution shall be as per mutual agreement between the applicants and the TDF. However, minimum



contribution by the applicants shall be at least 5% of the project cost². TDF prefers a project which has maximum leverage/self financing possibility.

For leveraging TDF may use the matching grant, if any, from the GON in connection with the investment from the TDP Investment Reserve.

Where there is loan and/or grant contribution from the local FIs/donors/GoN in the proposed project, the balance remaining after the donors/GoN funding of the cost of project may be invested from TDP Investment Reserve as loan.

2.6 Public Private Partnership (PPP) Projects³

The Fund may also encourage the client to undertake projects for infrastructure development in PPP model.

A PPP model for municipal infrastructure development may be the partnership of LBs and/or any government departments/bodies/agencies/entities on the one part and selected private sector parties on the other. For this both parties shall enter into a valid and legal contract agreement for the development of municipal infrastructures.

PPP model under TDP Investment Reserve shall have the following ingredients:

- a) Partnership between the two, the LB and private sector legal entity in the partnership, shall provide long term public services(and/or goods) of required quality;
- b) The LB shall, while transferring the responsibility to design, construct and/or operate the project to the private sector, retain the final responsibility to provide the public service;
- c) The private sector shall arrange the required finance either fully or substantially to complete the project and to operate it. The public sector shall provide right to collect revenue or guarantees to financiers or viability gap funding or annuity in appropriate cases.

² Lending and Grant Policy of TDF

³ The PPP agreement may for any of the partnership; BOT (Build Own Transfer, LOT (Lease, Operate and Transfer), BOO (Build, Own Operate), BOOT (Build, Own, Operate and Transfer), DBFO (Design, Build, Finance and Operate), DBFOM (Design, Build, Finance, Operate and Maintain), OC (Operation Concession) and JVs (Joint Ventures).



For the required finance on the part of the private sector, TDF may provide TDP Investment Reserve loan funding through the private party under a tripartite agreement between the private party, LB and TDF. However, TDF shall not lend any money under a bilateral agreement with any private sector entity.

- d) The LB may assign the right to collect revenues arising from the project to the private sector for a defined period based on demand projections, or pay grants or annuity and/ or agree to share any surplus, subject to a balanced sharing of the risks and gains;
- e) Value for money shall be the basic criterion for the public sector to enter into the arrangement.

PPP project under consideration for TDP Investment Reserve may be a long term arrangements in which the LB provides concessions, subsidy, guarantee or facility to the private sector for the project development and implementation. The private party may borrow TDP Investment Reserve loan from the TDF via LB where LB will be the direct borrower of TDF loan or under the guarantee of the LB where the security mechanism/instruments prescribed under this guidelines shall be applicable *mutatis mutandis* in respect of the loan to the private party.

2.7 Management and Institutional Arrangement for the Projects

No investment from TDP Investment Reserve shall be made unless the applicant is able to show the required institutional and management arrangement for the project to the satisfaction of TDF.

2.8 Planned Financial Sustainability Arrangement

Along with the application for the investment from TDP Investment Reserve, the borrower shall submit a clear plan of financial sustainability of the infrastructure to be created by the project **Compliance with safeguard guidelines (environmental and social).**



It shall be the responsibility of the applicant to prove that it has fully complied with all applicable safeguard guidelines. TDF, upon request from the applicant, may arrange for the required examination/assessment of the safeguard at the cost of the applicant.

2.9 Project Completion Period

Permissible maximum construction period of the project shall be as per the detailed project report. The grace period for the loan under the TDF Investment Reserve will generally be based on the Project Completion Period.

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Chapter 3: Terms & Conditions

3.1 **Maximum Loan Amount:**

The maximum loan amount of project shall be as determined on the basis of minimum requirement for eligibility as per section 2.5.

3.2 **Interest Rate:**

Interest rate shall be fixed by the TDF Board. The interest rate depends on cost of funds, operating cost, anticipated default (loan loss), and return on equity of a financing program. The market rate will also be considered for reference purpose.

The interest rate will be subject to review by the TDF at least every two years according to business policy considerations.

3.3 **Loan Pricing Policy**

While fixing interest rates on TDP Investment Reserve Loan, the Board shall consider the following:

- i. Basic Interest Rate
- ii. Risk Interest Rate

In addition to cost factors set out hereunder, the Board shall abide by the directives, if any, prescribed by the Nepal Rastra Bank (NRB) or such other competent authority from time to time and take into account the market conditions

The interest rates on TDP Investment Reserve loan shall always be expressed in Basic Interest Rates.

Basic Interest Rate represents the rate chargeable under every TDP Investment Reserve Loan irrespective of the risk weightage attached therewith. Basic Interest Rate shall be derived at after considering the following criteria:

a) **Cost of borrowed Funds**

This component represents the interest and other incidental charges payable by the TDF for servicing the borrowed funds deployed by the TDF. Major



contributing factor to this component includes interest payable on donor's fund, GoN loans, interests on bonds and debentures issued by TDF, if any, interest on bank borrowings and other incidental charges thereto.

b) Overhead Cost

This cost represents the Administrative, Operation & Maintenance and all incidental expenses of TDF

c) Return on Capital Employed

After considering the above cost factors, the Board shall take into consideration of a fair return on capital employed which is to be generated by the management as a return to the owners capital.

Thus, the basic interest rate shall be fixed as a mark-up on the current cost of funds. The current cost of funds for this purpose means the incremental cost of borrowing of the relevant period including the overhead cost and fair return on capital employed.

d) Anticipated Loan Loss

The basic interest rate fixed as above can be increased by a certain percentage to provide cushion for the anticipated loan loss/ bad debts as decided by the Board.

However to make the interest rate simple and easy to understand to the clients, interest rate for loan shall be equal to the GoN development bond rate plus 2.5%. TDF Board may amend the interest rate under the TDF Investment Reserve Loan as needed with the consideration of above said criteria.

3.4 Appropriation of Interest Income:

The interest income will be appropriated by the TDF Board based on the above principles. However, to make it simple, the following criteria will be adopted for the interest appropriation under TDP Investment Reserve Loan:

- i. 45% of the interest income to be accumulated to the TDP Investment Reserve Fund (RF);
- ii. 20% of the interest income to be transferred to Reserve Fund (RF), and



- iii. 35% of the interest income to be transferred to Income Statement to cover the TDF administrative cost.

3.5 Service charge for loan processing:

TDF may decide to levy service charges to applicants for the various types of service in connection with the loan processing. Also the applicants may be charged for any consulting fee for technical assistance related to project studies, designs, financial/economic and other analysis⁴.

TDF can offer its service to its DPs and GoN to channel loans or grants (retailing) on mutually agreed fee based terms and conditions. TDF services charge will include cost for efficient delivery of project management services.

3.6 Commitment Charge for the Underutilization of Approved Loan:

To protect the TDP Investment Reserve from a possibility of its blockage in view of the financing agreement entered and delays on the part of the applicants on project execution and consequent delay in the utilization of committed amount, TDF Board may decide to apply a commitment charge.

With the above effect, amortization schedule for the loan disbursed shall be adjusted and all the provisions of this guidelines shall be applicable in respect of the disbursed amount of loan.

3.7 Terms of Loan:

Terms of loan applicable to TDP Investment Reserve shall be as decided by the Board considering the present practice of TDF as well as the banking and financial sectors' applicable legal and regulatory frameworks.⁵

⁴ Section 7 of the Act provides that the fund may collect service charge as prescribed for the consulting service.

⁵ Common Loan Grant Policy: The determination of maturities for loans will allow flexible adaptation of repayment schemes to the cash flow of the specific project up to 20 years, including up to 5 years grace period.



The Board may from time to time review the standard terms fixed earlier and may change it for future loan. The term of the loan may be different for different categories of projects. Basically, the terms of loan shall be as decided by the TDF Board considering similar category of loan in the market. However, generally it will be up to 20 years including the grace period.

3.8 *Number of Instalments:*

Number of instalments for a loan shall be based on the number of years allowed and the total number of payments to be made within a year. This shall be mutually agreed between the applicant/ borrower and TDF. However, total number of instalments for any fiscal year shall not be less than two.

3.9 *Repayment Deferment:*

For any deferment in respect of the instalment and interest due on a particular due date until the closure of the fiscal year, the interest shall be capitalized and the new amortization schedule shall be issued to. The borrower is required to abide by the new amortization schedule.

The TDF may consider re-scheduling of a loan upon written request of a local authority or a borrower, duly explaining the circumstances which, in the opinion of the authority or the borrower, necessitate the rescheduling. The TDF may then, at its discretion, re-appraise the financial situation of the local authority or the borrower. Upon the re-appraisal, the TDF will inform the authority or the borrower about its decision.

It is optional to the client to take the loan as an annuity loan with a progressive repayment schedule to improve the cash-flow situation over the years of its operation.

In case the TDF agrees to loan re-scheduling, the TDF will at the same time review and, if necessary, adjust the interest rate. The interest rate for the re-scheduled loan will be set at one percentage point above the adjusted interest rate. The maturity period of the re-scheduled loan will be determined by the TDF.

Handwritten signatures in blue ink, including a large stylized signature and a smaller signature below it.

3.10 Penalty for Late Payment:

For any delays in the payment of the amount due, penalty may be imposed as decided by the Board.

3.11 Incentive on Scheduled Payment:

The Board may decide to provide incentive for any borrower for scheduled payment made. Such incentives, inter alia, may be certificate of appreciation or any assistance for future investment.

Borrowers are allowed to make pre-payment before the due date.

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Chapter 4: Security Mechanism

The objective of establishing TDP Investment Reserve is thought with its financial sustainability and to start a practice of bearing risk as a financial institution for a reasonable amount of return at par with commercial practice. To safeguard such a return and to play a role of true financial intermediary and relieving GoN from contingent liability due to guarantee financing, TDP Investment Reserve Loan shall be made with reliable, concrete and enforceable security mechanism as dealt in the following paragraphs.

Establishment of security mechanism may be arranged as per Act. In addition to Act, the following security mechanism shall be applied.

4.1. **Escrows:**

This mechanism ensures the lender with the Escrows i.e. to keep a certain amount of money in trust, which will be continued till the full loan repayment.⁶

4.2. **Revenue intercept**

Another option would be to authorize the TDF to intercept specified available revenues of the borrowers, as agreed in the loan agreement, which may be from GoN or other funding agencies to safeguard the loan.⁷

4.3. **Debt Service Reserve Fund (DSRF)**

The borrower - has created a reserve fund to be used to pay debt in case of insufficient sources to satisfy the debt service requirements.⁸

4.4. **Collaterals**

TDF may take collateral from the borrower against a loan.⁹

6. Escrow: *TDF has opened and maintained an escrow account with a trustee for the requisite amount with the required terms and condition, or*

7. Escrow on Central =Government Transfer: *TDF has been successful to establish escrow account on central government transfer or any other revenue with due concurrence of the concerned ministries of GoN.*

8. DSRF Investment Reserve: *It has been successful to arrange a DSRF mechanism with due approval of the concerned ministries of GoN and a letter to that effect is issued by the concerned authority in the name of TDF.*

9. Collateral: *A declaration by the applicant that all the process for pledging specific properties in the name of TDF has been completed with substantial documentary proof, or*



4.5. Step-in rights

It is primarily intended to give the Fund comfort that, in the event of the borrower defaulting on its loan, the Fund may take over the development in the borrower's place to get it completed and then sell the development to pay off the debt.

Under this the borrower pledges specific properties with the Fund to secure the repayment of loan. Step-in rights would ensure the right of the Fund to step-in and take over certain functions and or assets if the borrower materially breaches its obligation under the TDP Investment Reserve Loan agreement.¹⁰

The above mentioned first three modes of security mechanisms are more relevant to the TDP Investment Reserve Loan when the applicant happens to be a LB, but in case the applicant is the institution other than the LBs or in case of pure project financing, lending agreement shall follow diligent assessment of cash flows with security arrangements of (i) collateral, and/or step-in rights.

Whenever, there is collateral arrangement as a security for the TDP Investment Reserve loan, it will be ensured that:

- a) Execution of mortgage of property with competent authority and receipt of Title Deed
- b) Execution of pledge document with competent authority
- c) Execution of agreements
- d) Power of attorney to TDF, if necessary
- e) Receipt of insurance policy, if necessary

There shall be created and maintained a Master File of security documents for each and every TDP Investment Reserve Loan Agreements.

10. Step-in right: An agreement as per the relevant legal and regulatory frameworks providing TDF, a step-in right on the project it has financed in the event of default by the applicant to repay the loan.



Chapter 5: Application Procedures

Application for loan from TDP Investment Reserve shall be submitted as per the SOPs along with the relevant documents and the document prescribed in this guidelines. Sample of the Loan Application Letter is given in Annexure III (a). All the process applicable to TDF investment as provided in the SOPs shall be applicable to TDP Investment Reserve Loan.

5.1. **Initial Discussion and Screening before Submission of Application:**

Prior to submitting an application, the applicant shall discuss about the project with the PMTA Department. The Department shall assist the applicant, as is reasonably necessary, in completing the application. All the financial information shall be kept in a secured place with access limited to the authorized personnel only.

5.2. **Timing:**

Application may be submitted at any official working day during the year. However, the Fund may fix a deadline for application for the particular fiscal year if the available amount of TDP Investment Reserve is limited.

5.3. **Priority:**

Generally, application shall be processed on first come first basis. However, the following criteria will be used to determine priority.

a) **Credit worthiness of applicant**

Priority will be given to the applicants/municipality which has good loan bearing capacity.

b) **Higher Leverage**

Priority shall be given to the project which has objective and possibility of maximum leverage opportunity by mobilization of applicants /municipality's internal resources or mobilization of resources from all the stakeholders of the project including the community people.

c) **Others**

In addition, priority shall be given to the project which contributes more in terms of:

- i. Development of basic infrastructure facilities that provides revenues to the applicant
- ii. Creation of employment opportunities



- iii. Poverty alleviation
- iv. Environmental protection
- v. Extent of security
(TDF will choose an applicant/project which will give highly liquid and reliable security to its loan investment).
- vi. Size of loan requested
- vii. Extent to which loans are secured
- viii. Evidence of ability to repay the loan
- ix. Timing of proposed expenditure
- x. Completeness of application

5.4. Loan application package:

Submission of loan application package by an applicant shall be as per the SOP. Applicants shall submit a loan package consisting of the following:

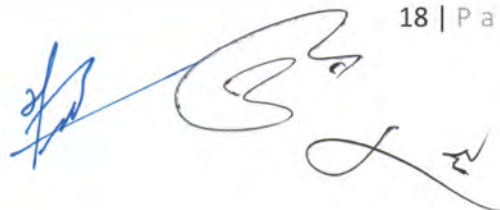
i. Application: A completed application form as approved by TDF under the SOP along with a cover letter prescribed in Annexure III (a) & (b) mentioned above.

ii. Business description:

In case the applicant happens to be an institution or consortium/Joint Venture or such institutions other than LBs, a written description of the business, including the following:

- a) A brief history of the existing or proposed business, including when it started or is to start, type of operation, legal structure, markets and products.
- b) Key customers and consumers of the products/service to be delivered by the project.
- c) A personal resume of each principal associated with the business, including number of years of experience; educational background; and personal involvement in the proposed or existing business.
- d) Income tax clearance if applicable and/or financial statements for maximum of 5 years as applicable.

LBs shall prepare the document in the nature of the above business plan (Annexure III (b) with appropriate modification.



5.5. Project Description

The applicant shall submit a project document explaining how the requested fund will be used.

5.6. Commitment for other fund leveraged

For the financing of any portion of the project cost from any of the financier other than the TDF, the applicant shall submit commitments from all other such financiers/lenders funding to the project. Such commitment letters should include:

- a) Description of the type of loan being made by the lender,
- b) The amount of the loan, interest rate, term and security,
- c) Statement that co-financing and investment is subject to TDP Investment Reserve loan.
- d) Business Projection and Projected financial statements: Applicants are required to provide a Projected Financial Statement including annexes relevant to that the requested loan is necessary for the project work. The above financial statements should cover at least ***period of five years or reached to until break- even point.***
- e) Any other additional information as may be required by TDF.



Chapter 6: Appraisals, Review and Approval Process

6.1. Project Appraisals:

The PFRM Department shall review the application for completeness and verify that the proposed project meets the minimum requirement as provided in this guidelines. The Department shall make an appraisal on 'General Criteria' as prescribed in the Financial Appraisal Guidelines. For finalizing the appraisal on General Criteria, the PFRM will collaborate with relevant departments for confirmation that the entity meets the TDF requirement of credit worthiness. If the application is not complete, the concerned Department will inform the applicant for the required completeness and provide suggestions on it.

The proposal which is found acceptable from the appraisal on General Criteria as mentioned above should be passed through the following further procedures:

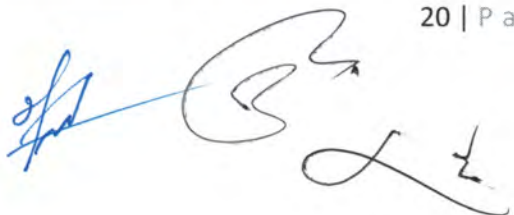
6.1.1 Technical Appraisal

PMTA Department will analyze the pre-feasibility study, feasibility study or DPR in the technical appraisal. The key elements of the technical appraisal as given in the Project Appraisal Manual are mentioned in the checklist (Annexure IV.a,b,c,d). TDF will develop an additional guidance on the technical appraisal¹¹. Technical appraisals are the important inputs to the financial appraisal. After completion of the technical appraisal and confirmation of technical acceptability, the proposal will be appraised for financial viability.

6.1.2 Review of environmental and social safeguard measures

As an integral part of appraisal process, environmental and social safeguard measures planned by the applicant have to be reviewed to ensure that environmental and social risk mitigation measures are sufficiently considered by the applicants as per the prevailing and TDF guidelines on the safeguard.

¹¹ Financial Appraisal Guidelines Chapter 3: Technical Appraisal second paragraph.



6.1.3 Institutional Appraisal

Appraisal of applicant's institutional capacity is a critical component of appraisal process. The borrower must prove the ability to implement and operate the project successfully. Brief key elements of the institutional appraisal within the Technical Appraisal have been mentioned in the checklist (Annexure IV.a,b,c,d).

6.1.4 Financial Appraisal

TDF Financial appraisal includes two stages: (i) credit worthiness of the applicant, and (ii) financial viability of the project which also appraises productivity of the project to generate income so as to make repayment. Credit worthiness assessment (Checklist as given the Annexure V) can be done independently to other appraisal processes described above. The financial appraisal must be done in accordance with the Project Appraisal Manual. Check list for financial appraisal is given in Annexure V.

6.2. Processing by Loan Processing Team:

The Loan Processing Team, as prescribed in this guidelines, shall meet for formal review of the application within 30 days of the receipt of an application. Once the review is completed and the proposal is acceptable for funding, the Loan Processing Team (LPT) shall forward the proposal to the Investment Promotion Committee (IPC). The IPC in turn shall approve the proposal subject to the Board endorsement. The PFRM Department shall coordinate and record the proceedings of the Loan Processing Team.

6.3. Letter of Invitation for Negotiation:

If the application is complete in all aspect, the proposal can be recommended to the Investment Promotion Committee and a letter to the applicant shall be issued through the PFRM Department. Such notification to the applicants will be for inviting for a final negotiation meeting.

6.4. Negotiation of Terms:

Upon acceptance by the Loan Processing Team, the PFRM Department with consultation to PMTA and HRFM Departments shall contact the applicant in writing to



negotiate and arrive at a consensus on terms and conditions of loan. After successful final negotiation the necessary loan documents shall be prepared. The draft loan documents shall be reviewed by the Loan Processing Team and shall be forwarded to Investment Promotion Committee for its recommendation.

6.5. Rejection of Awards:

If the application is rejected under review of any of the authorities prescribed in these guidelines, the PFRM Department shall send a letter to the applicant notifying the rejection.

6.6. Final Approval:

The Board shall provide final approval to the loan proposal forwarded by the IPC. The Board may authorize the IPC to approve the loan subject to endorsement by the Board.

6.7. Loan Agreement:

Loan agreement in the TDF usual form governed by this guidelines shall be executed by the Executive Director or the other Officers of TDF as authorized on behalf of TDF. The Chief Executive of the applicant entity or the duly authorized other representative of such entity on behalf of the applicant has to execute the loan agreement on behalf of the borrower.

The image shows two handwritten signatures in blue ink. The signature on the left is a cursive 'J' followed by 'al'. The signature on the right is a large, stylized cursive signature, possibly 'G. S.', with a small '2' at the end.

Chapter 7: Loan Administration

7.1. Loan Processing Team

A Loan Processing Team (LPT) will be constituted for the processing of the TDP Investment Reserve Loan and implementation of this guidelines.

For the review, selection, finalization of project appraisal and recommendation for loan approval, a Loan Processing Team (LPT) shall be formed. The team shall consist of:

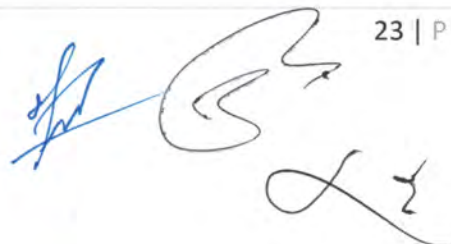
| | |
|----------------------|-------------|
| Director, PFRM | Coordinator |
| Director, PME | Member |
| Director, PMTA | Member |
| Director, HRFM | Member |
| Legal Officer/Expert | Member |

The workings, preparation and reports of the HRFM Department, PFRM Department and PMTA Department in respect of the applicant project shall be discussed, considered and reviewed at the meeting of the Loan Processing Team (LPT) and the application shall be forwarded to IPC for recommendation to the board for final approval.

The LPT has to review, select and recommend the loan application to the Investment Promotion Committee which in turn shall make final review and submit the loan application to the Board for final approval. The LPT can also make policy recommendations for the administration of the programme. The periodic activity report prepared by the LPT shall be submitted to the IPC.

Duties and Responsibilities of the LPT:

- (a) Review the assessment of loan bearing capacity of the applicant,
- (b) Review the application package,
- (c) Review financial statement of the borrower and loan amortization schedules,
- (d) Review and recommend the TDP Investment Reserve administrative cost,
- (e) Prepare TDP Investment Reserve annual investment program,
- (f) Review the TDP Investment Reserve investment portfolio analysis, risk assessment, control and monitoring,
- (g) Review the finalization of loan agreement,



- (h) Review the security mechanism arranged and instruments executed for the security of the loan.

7.2. Investment Promotion Committee:

The loan investment recommended by LPT shall be reviewed and approved by IPC subject to endorsement by the TDF Board. The authorities, duties and responsibilities of the IPC shall be as per the TDF Regulation. The IPC shall be constituted as per the TDF Regulation, 1997 rule (4) as follows:

| | |
|---|------------|
| Executive Director - | - Chairman |
| Nominated by the Board among the members of the Board | - Member |
| Nominated by the Board among finance experts | - Member |

7.3. Records:

i. Loan Package

All credit and loan information submitted to TDF including all relevant correspondence shall be documented. All documents shall be kept in with appropriate records. TDF legal expert/officer shall be consulted in regards to compliance with laws applicable to the applicant.

ii. Loan Process Closing

It is the responsibility of PFRM department to assist the LPT in assembling the legal documentation for the loan processing as well as recording of all loan processing documents. All legal documents from the loan closing, including all relevant correspondences, shall be placed in a locked fireproof safe. The documents can be securely kept as copy in digital archive form. Checklist for loan process documentation is given in Annexure VI.

All borrowers shall be required to enter into an agreement with TDF. Then the loan security mechanism shall be determined on an individual basis

Copies of loan process closing documents shall be provided to the loan recipient, along with an invoice, if applicable, for loan process closing and servicing fees along with an amortization schedule.



iii. Documentation System

A documentation system shall be established and maintained by the concerned departments and divisions of TDF to ensure that loan repayment, financial information, the loan agreements, updates on regulations relevant to the entity as well as other time sensitive documentation are tracked and obtained as required.

The system should include:

- a. Expiry date of document, if any, which are subject to annual renewal with appropriate authority,
- b. Due date for all financial statements and other relevant reports,
- c. Scheduled dates of annual loan repayment and covenant reviews,
- d. Dates of project site visits, visiting team and personalities and field visit report,
- e. Due dates for tax and levies payable to any authority and payments date to ensure the statutory compliance,
- f. Review dates for implementation progress monitoring,
- g. Dates on which with borrower shall be notified if the loan amortization schedule changes.

iv. Financial Statement

All borrowers shall be required to submit periodic financial statements to TDF. The HRFM Department shall provide a financial analysis and compare the statement with historical trends and budget forecast. The TDF may require fiscal year-end audited financial statements with analysis from its applicant borrower.

The financial analysis may include:

- a) Available cash in hand;
- b) Income and expenses compared with projections;
- c) Changes in assets to reflect TDF loan;
- d) Substantial changes in assets or liabilities;
- e) Disposition of collateral securing TDF loan;
- f) Profitability and available working capital;
- g) Review of applicable loan covenants; and
- h) Contract with the co-financer to review the status of all outstanding loans.



v. Repayment Monitoring

Repayment monitoring shall be conducted by the HRFM Department as prescribed in the SOPs. The priority order of payments shall be penalties, interest accrued, and principal respectively.

vi. Loan Assessments

All loans shall be assessed on an annual basis, and at such other times as may be deemed necessary. The annual assessment shall follow with receipt of the fiscal year-end financial statement, the year-end progress report and the annual field visit.

The following criteria shall be used to determine the status of all loans:

- a) Timeliness of periodic payments;
- b) Maintenance of security mechanism for securing the loan;
- c) Overall financial condition of the borrower
- d) Presence of material liens and lawsuits; and
- e) Violation of loan covenants

If the business/project/applicants are experiencing problems with any of the above criteria, TDF shall work with the borrower to determine the action that is needed to correct the identified lacking as per the provision of SOPs.

7.4. Post Implementation Monitoring:

In order to confirm the satisfactory fulfilment of the covenant set primarily in the project appraisal and subsequently to the loan financing agreement, post implementation monitoring shall be done. It may include process from desk review to visits of project site and office of the client. Facts found in the monitoring process shall be primarily considered for appropriate action at the departmental level. The consolidated statements of facts found during the post implementation monitoring, action taken, outstanding issues and problems faced shall be reviewed by the LPT for fixing an appropriate improvement plan.

The post implementation monitoring shall be done by a team of officer/s from the concerned department/s of the Fund. To confirm the progress achieved by the borrower regarding the covenants in the appraisal report/financing agreement, the monitoring team may focus on checking the following indicators:

- a) Financial indicators achieved;



- b) Number of users/consumers achieved as agreed;
- c) Volume of service/product reached;
- d) Level of tariff, rate or levies applied as agreed;
- e) Extension of service area;
- f) Status of security instruments executed;
- g) Environmental and Social Safeguard complied/agreed to comply;
- h) Technical measures required to safeguard the security and the operation and maintenance of the infrastructures;
- i) Overall physical condition of the infrastructure in view of the status of regular and periodic maintenance and any rehabilitation made by the borrower.

The Fund may use specified measures¹² if any agreed with the donor party or the GON for the post implementation monitoring.

7.5. TDP Investment Reserve Loan Portfolio and Risk:


To maintain the loan investment diversification to reduce the risk of concentration in few categories, HRFM department shall conduct a TDP Investment Reserve Loan portfolio analysis at least once in a year after completion of the fiscal year. The TDF may fix sector investment strategy and exposure norms based on the result of the analysis.

7.6. Loan Classification, Control and Monitoring:

The Fund Management Division shall classify the loan and advances into various categories in order to manage and monitor the concentration of loan and concentration of risk:

- a) Classification on the basis of sector categorization
- b) Classification on the basis of risk grade
- c) Classification on the basis of loan amount
- d) Classification as per loan period

12. Specified indicators have been used to measure the performance in some of the donor funded past projects, such as KfW.



In order to evaluate the loan ageing, it has to develop an information collection facility within the IMS of TDF. The classification of ageing will follow the provisioning policy as mentioned in the TDF Accounting Manual.

Loans overdue with period < 6 months

Loans overdue with period >6 months to 1 year

Loans overdue with period > 1 year to 3 years

Loans overdue with period > 3 year to 5 years

Loans overdue with period > 5 years

7.7. Management of Problem loans

The risks loans or problem loans are those which are due for more than one year. As the TDF investment are to be made to the infrastructure projects of the municipality, some solid basis for management of problem loans and past due loans are to be worked out. The following paragraphs indicate the area on which TDF should be aware and take action to safeguard the loan which is detailed in the SOPs:

- a) Cause identification
- b) Early warning system
- c) Problem loan reporting
- d) Managing the problem loans
- e) Safeguarding actions
- f) Corrective actions
- g) Recovery actions
- h) Stop new investment to the defaulter, in general.

7.8. Follow up and Recovery:

The Fund Management Division has the prime responsibility to maintain the efficient loan portfolio and the level of loan loss provision to a minimum level.

The detail steps and procedures for loan recovery have to be followed as per the SOPs.

Chapter 8: Loan Disbursement Process

8.1. Disbursement Procedures:

The borrower requires opening a separate ledger account in the name of the project before the disbursement from TDP Investment Reserve loan is made.

Then the TDF will disburse the loan and matching funds, if any, for construction as follows:

- i. Up to 20% upon signing of the Construction Agreement with the contractor. In case of execution by the borrower itself or by a users 'committee, the construction works shall have been started. This will be adjusted as per the condition of contract/agreement.
- ii. The borrower can request for additional funds up to 90% of Work In Progress (WIP) through running bills. However, each running bill shall not be less than 10% of the contract /agreement amount.
- iii. The balance 10% will be disbursed upon receipt of the Final Bill and the approved Completion Report.

The request for release of loan amount against the final payment shall be supported by copies of all supporting documents, originals being safely kept by the entity as per prevailing laws, along with the Disbursement Request Letter (Annexure VII) along with the Summary of Expenditure (Annexure VIII) of this guidelines.



Chapter 9: Accounting and Financial Reporting

9.1. *Accounting:*

Accounting will be based on the TDF Accounting Manual prepared on the basis of Nepal Accounting Standard (NAS) and approved by the Board.

9.2. *Financial Reporting:*

The financial reporting system shall be as per the accounting manual of TDF. TDF may use additional reporting for statement showing changes in TDP Investment Reserve balances as attached in Annexure IX.



Chapter 10: Supervision, Monitoring and Evaluation

All borrowers would be required to submit quarterly progress reports to the TDF indicating physical and financial milestones targeted and achieved. The TDF would supervise and/or monitor implementation and in case where a time/cost overrun is anticipated, an immediate report describing the reasons and remedial actions including modifications if needed must be submitted by the borrower which will be re-appraised by the TDF. The borrower must receive formal re-approval by the TDF before commencing the work. The TDF would reserve its right to suspend/cancel the loans, if during course of project implementation there are serious violations of the approval/disbursement conditions.

10.1. Implementation of Progress Reports:

Every borrower of TDP Investment Reserve Loan shall submit a project implementation progress report as mentioned below in the form prescribed against each of the reports along with project summary.

- a) Project Implementation Report (Annexure X)
- b) Output Monitoring Report (Annexure XI)
- c) Contract Expenditure Report (Annexure XII)

10.2. Project Supervision & Monitoring:

a. TDF Supervision & Monitoring

TDF conducts field visits as per its plan to supervise or monitor the status of projects for effective implementation of the loan agreement. The visiting team submits the field visit report as per the prescribed format in the SOP.

b. Quality assurance

After the projects are completed, a post evaluation report stating the costs, benefits, financial ratios, technical/social parameters achieved by the project would be submitted in the format prescribed. The borrower should place before



the TDF, a quarterly performance statement including details of projects approved and completed.

The borrower shall ensure that the quality of the works during the construction of the infrastructure and its quality of operation and maintenance are as per the generally accepted quality standards.

During the construction phase the applicant entity shall arrange a supervision consultant or its own engineer for the quality assurance and recommendation for the construction progress and payment thereon. TDF may finance the cost of the supervision consultant if requested by the borrowing entity.

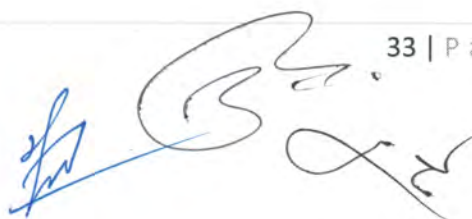
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Chapter 11: Third Party Monitoring and Special Examination

TDF, if any circumstances require, may ask the applicant entity to have separate special examination of the project by an independent expert.

The examination may cover the aspects of the project indicated hereunder:

- a) The data, records, analysis and the decision process of the applicant entity in relation to the project development.
- b) Documents and files leading to the formulation, appraisal and approval of the project.
- c) The process of identifying the private sector partner/s, if any, requests for proposals, bidding and tendering process of the contract with due diligence to fairness, transparency and objectivity.
- d) Account documents, bills, records and schedules relating to the construction, and oversight arrangements.
- e) Value for money considerations and safeguarding the public interest.
- f) Operation and maintenance of the assets, tariff / toll / user-charges collection and accounting, revenue sharing arrangements and escrow accounts.
- g) Quality and standards of the service, customer protection, dispute resolution and asset transfer arrangements, etc.



Chapter 12: Miscellaneous

12.1. *Amendments:*

This guidelines may be amended from time to time by the Board.

12.2. *Repeal and Savings:*

All the acts and proceedings relating to TDP Investment Reserve carried out under the Board decisions or made under any other existing rules, and procedures of TDF shall be deemed to have been carried out under this guidelines.

12.3. *Power to Remove Difficulties:*

If any difficulty arises in connection with the implementation of this guidelines, the Board may on the recommendation of the Executive Director remove such difficulties.

12.4. *Limit of Investment and Minimum TDP Investment Reserve balance:*

The Board may fix the limit of investment from the TDP Investment Reserve according to the provision of the Act, Rules and this guidelines. To ensure the liquidity of the TDP Investment Reserve without hampering the possibility of fulfilling the unmet demand of the municipal projects, the Board may fix minimum level of TDP Investment Reserve balance.

This guidelines shall remain valid and in force until proved to be inconsistent with any contemporary laws. In case of any inconsistency established such provisions shall ipso facto be deemed to be amended accordingly.

12.5. *Other Investment:*

The TDF Investment Reserve may also be invested in the shares, debentures, bonds, fixed deposits, consortium financing etc. as per the provision no.9 of TDF Act and the provision 6,7 & 8 of TDF Regulation. TDF Board may define the criteria for making such investments as and when necessary.



Annexure I: Sector Categorization

| Social/Environmental Infrastructures | Urban Infrastructures | Economic/Revenue Generating Infrastructures |
|---|---|---|
| <ul style="list-style-type: none"> • Drainage (Bridges/Culverts if part of drainage) • Public Toilets • Slum Area Improvement (water, road, drainage, solid waste, and access roads to hamlets of the poor communities) • Sanitation Programmes • Pre-primary Schools • Libraries/Reading Halls (book bank for poor children) • Health Centres/Health Posts • Fire Station • Aged Rest-Houses/Orphanages • Water Pollution (including Sewerage, Waste Water Treatment Plants etc.) • Social Housing • School buildings (hostels for girls and physically challenged) • Green Zones/Parks/ Play Grounds • Municipal Hospitals, Ayurvedic Hospitals | <ul style="list-style-type: none"> • Drinking Water • Preservation of Rivers/Streams/Ponds/Deep Water Wells/Lakes/Stone Spouts • Protection of Natural resources, Controlling Air, and noise pollution • SWM (Collection, Transportation and Disposal including equipments) • Slaughter House • Public Land Protection Works • Street Lightings • Municipal Buildings • Community Buildings and Rest Houses • Sport, Stadium, Recreational Areas • River Cuttings/Floods/Soil Erosion Control • Plantation on Road sides • Crematoriums • Preservation of natural, Cultural, Archaeological, or Heritage Sites • Museums | <ul style="list-style-type: none"> • Bus Parks and Parking Spaces for Rikshwas, Horse Carts, Trucks etc. • Cottage, Medium and Small Industries • Tourism • Haat Bazar/Market Fair Centres/Exhibition Centres • Land Pooling • Supply of Electricity and Communication Facilities • Generation of Electricity/Distribution of Electricity (not urban) • Irrigation (this is not urban but maybe Ok on revenue) <p><i>Commercial investments such as Hotels, Business Centers, Shopping complexes are not prescribed to municipalities in the LSGA 1999, thus will not be eligible for TDF financing; rather they need to be financed fully by private sector.</i></p> |

Annexure II: Check List for Assessment of Creditworthiness

| S. N. | Check | Y | N |
|-------|---|---|---|
| 1 | Has the applicant submitted the business plan? | Y | N |
| 2 | Does the submitted business plan contain financial forecast with sufficient disclosure of at least five years historical data (audited)? | Y | N |
| 3 | Does the business plan contain Financial Operation Plan (FOP)? | Y | N |
| 4 | If answer to 3 above is yes, does the FOP disclosed following details: | Y | N |
| | a) Project cost estimate with necessary breakdown | Y | N |
| | b) Estimated annual operation and maintenance expenditure | Y | N |
| 5 | Has a planned draw down schedule furnished/given in the business plan? | Y | N |
| 6 | Has the applicant shown sufficient resources for borrowing capacity? | Y | N |
| | If answer to 6 above is yes,, the calculated indicator for assessment criteria (mention the calculated indicator value): | Y | N |
| | a) TE(Recurrent)/TR Ratio <1 | Y | N |
| | b) DS/TR Ratio <30% | Y | N |
| | c) Debt Service as 25 % of Net Operating Surplus | Y | N |
| 7 | Has the applicant ensured for upfront cash contribution? | Y | N |
| 8 | Has the applicant made consent or ensured for following provisions? (a) allocation of annual O & M cost at their annual budget (b) allocation of proposed debt service at their annual budget | Y | N |
| 7 | Sufficient arrangement for the following has been shown by the applicant: | Y | N |
| | a. Internal Control System | Y | N |
| | b. Accounting and Financial Management System and Reporting | Y | N |
| | c. Project Implementation Progress reporting System | Y | N |
| | d. Institutional arrangement proposed/established for operation and maintenance of constructed facilities | Y | N |
| 8 | Does the calculated ratio supported by the analysis of FOP? | Y | N |
| 9 | If the borrowing capacity assessment has not shown sufficient creditworthiness, what type of guarantee/security has been proposed by the applicants? Please mention the name of the security/guarantee. | Y | N |

Signed:

| | | |
|--------------|-------------|--------------|
| Prepared by: | Checked by: | Reviewed by: |
|--------------|-------------|--------------|



Annexure III (a): Template for Loan Application Letter

The Executive Director,
Town Development Fund,
Kathmandu

Subject: Request for Loan Financing

Dear Sir,

As decided by the (Governing Body) vide its resolution of
(Date), we request you to approve loan financing for the following:

- a) Name of Project:
- b) Total Estimated cost of the Project:
- c) Projected Financing Mix
 - i. Entity's self-financing: %
 - ii. Other Financer's investment: %
 - iii. TDF Financing Requested: %
- d) Requested TDF loan amount:
- e) Estimated area covered by the project:
- f) Total beneficiary/population of the project area:
- g) Demographic composition of the project:
(Four corner and Longitude and latitude).....
.....
- h) Estimated number of customers/service recipient/population served by the project:
- i) If the applicant is LBs, under which category the entity is classified under the MCPM of LBFC.(A, B or C)

Please find attached herewith the followings documents:

- i. Copy of the decision (Minute of Meetings or resolution) of the governing body.
- ii. Business Plan containing the Financial Operation Plan
- iii. Documents showing the institutional arrangement
- iv. User's consent on upfront cash contribution for project if any



- v. Users/customers willingness to pay the fee/tariff/charges or other levy if imposed by the entity against the use of product or services.

We declare that the above statement is correct, if proves otherwise, we agree to bear the legal consequences thereof.

.....

Chief Executive Officer

Date:

For:

A handwritten signature in blue ink, consisting of several loops and strokes, located at the bottom right of the page.

Annexure III (b): Suggested Contents of Business Plan for Clients:

A business plan is a description of the business, a road map that will help the applicant of the TDF-TDP Investment Reserve Loan investment to get its desired destination. It gives an idea of obstacles that lie ahead and can point out possible alternate routes. One of the major benefits that a LB or other entity can receive from developing a business plan is know the need of people, the unmet need and the aspiration of the people. A well prepared business plan will not only assist in developing/plotting a course for an entity, it can also serve as vital service delivery tool.

It is difficult to prescribe a standard form for a business plan applicable to every type of business. It can be assumed that, LBs currently also are preparing their business plans/periodic plans. The periodic short and long term plan they prepare, get approved by their governing body and implement as approved contains the essence of a business plan. The only difference, with the TDF required business plan in the context of TDP Investment Reserve Loan investment is the highlight of the project, project generated benefit that can be achieved by the people and its financial part.

A tentative content of a business plan required to be submitted by the applicant of TDP Investment Reserve can be as follows. The followings are the major elements of a business plan. This content is suggestive only. It can be modified according to the need and the context of the project.

a) Executive Summary

This is the most important part of a business plan. It must be clear, concise and compelling so that people will read further. It should be written after the other sections of business plans are completed. Ideally, it should be tried to keep this section to around two to three pages including summary of any financial request.

b) Description of the entity

In general, this section states the name of the entity, legal status and ownership structure. Purpose and Mission statement if any, should provide focus for the entity and define responsibilities.



An outline on where entity has been and where the entity is at right now should be highlighted. If the entity is to start up new service, describe what the entity intends to do. Only information that is relevant to the product or service the entity is describing should be included. How will this new activity add to or enhance the existing service delivery need highlighted.

c) Product or services

The description of infrastructure facility, service or product highlighting the unique feature needs to describe. The uniqueness of the project facility, product or service should justify why and how the project will be a success. Sufficient care should be taken to indicate any regulations that will affect the project and project created facilities. It should be clearly shown that the entity has or can meet the requirements.

d) Service Area /Market Analysis

The primary customer or the recipient of the service or the product and extent of total unmet demand that is going to be satisfied by the project shall be outlined. The detail analyses of the demography of the customer base on the service area will enable the entity to know the real customer of the project product or service and helps to clearly identify the exact customer needs, thus making the project a success.

Any identified/prevaling trend that can affect the project facilities after its completion shall be analyzed very critically. The trend that are influencing and affecting the service area and how the entity is going to address the trend shall be clearly mentioned in this section.

If there are or will be similar type of provider of service or product in the service area/market, institutional types of the competitor, modality of the service delivery and deviation with the entity's proposed modality shall be recognized. Also the mechanism of ultimate delivery of service or product shall be clearly identified and mentioned.



e) Extension or marketing plan

Extension of the service area or the future marketing plan is also very important element to be mentioned in a business plan. If the applicant is a LB then it needs to give the extension plan of the facilities to cope with the growing demand in future.

The marketing plan is very important if the applicant is an entity not being a LB but an entity conducting its business in a commercial basis. The entity can have the best product in the world but if it has no sales, then it has no business. Therefore, how will the entity make its customers aware of the product or service is very critical.

f) Operation

If there is any similar type of facilities run by the entity, the lesson learnt from its operation and desired improvement with a new project has to be highlighted. The facilities and equipment the entity currently has and what the entity need under the project shall be clearly identified.

The institutional arrangement for running the project business shall be clearly indicated and planned. How the entity will keep costs down to remain competitive and justifiable should have been planned. The plan for growth as decided should be clearly given in the section.

If it is a business entity, then how does this business mesh with its existing business have to be identified? It is important that the entity keep separate records for each different business it has. This way the applicant entity will know what it is making and what is not.

g) Management structure and team

TDF will pay particular attention to this section also. It wants to know that the entity have the right people for its business. The quality of people will determine the success of the business. It should have been indicate who is in the team, their qualifications and responsibilities (i.e. management, production, marketing, financial management etc). If the applicant entity does not have people in these positions right now because of the



size of the business, provide a time frame to put the team together. Organization chart is also required to ensure that the overall team is accomplished the required functions.

h) Financial statements

Financial statements show where the business is at right now and provides with the information needed to make decisions. It is important to keep the statements current and to refer to them on a certain periodic basis. As a general rule, the following financial forms with projections for at least five years should have been included:

- a) Income statement
- b) Cash-flow projections
- c) Balance sheet

When making financial projection, it is important to explain- any assumptions-how the figures have been determined. Since the entity is looking for financial assistance, TDF will want to know where the applicant entity will get financing for the entity's business and how the applicant entity will spend the money. TDF also wants to see the historical records of past years (indicate number of years).

Applicants are requested to use the sample forms and guidelines for preparing Financial Operation Plan (FOP) as given in the relevant documents of SOP.



Annexure: IV(a) Checklist for Bus Park (Economic Infrastructure)

Check lists for Bus Park (Economic infrastructure)

| S. No. | Issues | Particular | Remarks |
|--------|--------------------------------------|---|--|
| 1 | Design features | <ul style="list-style-type: none"> - Feeling of sense of arrival and departure -Pedestrian and vehicular traffic segregation - access for long bus, micro-bus, jeep including local transport (taxi, tanga, rishkswa, bicycle, etc. without conflict; - Earthquake resistant and energy efficient planning and building; -Provision of rescue in case of emergency situation | |
| 2 | Planned components | <ul style="list-style-type: none"> - Arrival and departure bays for different types of transport; -Terminal building with passengers waiting; -Workshops and public toilet; -Long term parking for buses and parking for local transport; -Infrastructure planning : drainage, water supply, solid waste, etc. | - These components shall be based on the requirement formulation, which is again based on data collection, projection and analysis |
| 3 | Specification | <ul style="list-style-type: none"> -Space arrangement as per time saver standard, neufert or other similar standard books; -GON's norms : buildings, road construction, drainage, water supply, etc. | International norms and specification including UN and other international donors norms shall also be followed in case local data in not available |
| 4 | Material and construction technology | <ul style="list-style-type: none"> -Local material as far as possible; -Locally manageable construction technology as far as possible | |
| 5 | Drawing and detailing | <ul style="list-style-type: none"> - Working drawings required for execution -Master layout plan for different components; -Architecture drawings with furniture layout, structural drawings, electrification and sanitary drawings plus other specific drawings as per project demand | |
| 6 | Cost estimate and specification | <ul style="list-style-type: none"> -Cost estimate based on latest fiscal year rate; -Correlation between cost estimate (items, rate, etc.) with working drawings | |
| 7 | Miscellaneous | - Routine maintenance plan | |



Annexure: IV(b) Checklists for Commercial Buildings (Economic Infrastructure)

Checklist for Commercial Buildings (Economic Infrastructure)

| S.N. | Issues | Particulars | Remarks |
|------|-----------------------------|---|---------|
| 1 | Design features | <ul style="list-style-type: none"> - Need and Justification of the project - Demand and supply Analysis - Requirement Formulation based on Need. - Survey of the Existing Facilities nearby and the entire Municipality - Maximum/Optimum rentable Area - Active/ Interesting Interior Environment - Risk Mitigation (Avoid corner space, Easy Flow/ Circulation Access to all Shopping Area - Energy Efficient Design (Passive Solar Technology), Solar panels wherever possible - Building Size / Project Cost based on Eligibility of the Municipality, Socio-economic assessment and Financial Analysis | |
| 2. | Planned component | <ul style="list-style-type: none"> - Parking - Rentable Space for Shops, Different Kinds of Institutions like Banks, Financial Institutions - Drainage and Sanitation - Electrification | - |
| 3. | Specification | <ul style="list-style-type: none"> - Space arrangement as Per Time Saver Standard - Building Design according to Building Bye-Laws and Codes | - |
| 4. | Construction material | <ul style="list-style-type: none"> - Local material as much as possible - Locally manageable technology - High priority to easily cleanable wall and floor finishes | - |
| 5. | Drawings with cost estimate | <ul style="list-style-type: none"> - Master layout plan - Floor Plans - Elevations - Sections - Architectural , Working , Sanitary and Electrical Drawings - Rate analysis according to the latest fiscal year - Cost estimate considering all the components and rate analysis | - |
| 6. | Miscellaneous | <ul style="list-style-type: none"> - Construction Schedule - Operation and Maintenance Plan - Risk Analysis | |



Annexure: IV(c) Checklist for Drainage Project (Social Infrastructure)

Check lists for drainage project (Social infrastructure)

| S. N. | Issues | Particulars | Remarks |
|-------|-----------------------------|--|--|
| 1 | Design features | <ul style="list-style-type: none"> -Analysis of the catchment area (type of surface and area of surface) -Analysis of the rainfall on the given area -Type of drainage system according to the area (closed or open, type of construction material) -The importance of the area (e. g) for less important area the return period can be reduced in order to reduce the size and accordingly cost of the structure. | - Mass gathering for recognition of local problems |
| 2 | Planned component | <ul style="list-style-type: none"> -Drainage water inlet -Position and alignment of drainage -Size of drainage -Disposal of drainage water to particular point | - |
| 3 | Specification | <ul style="list-style-type: none"> -Hydraulic design for determination of size (capacity of the drainage) -Structural design | - |
| 4 | Construction material | <ul style="list-style-type: none"> -Local material as much as possible -Locally manageable technology | - |
| 5 | Drawings with cost estimate | <ul style="list-style-type: none"> -Master layout plan -Longitudinal section and cross section of drainage including all the components (e.g. inlet, culvert etc.) -Rate analysis according to the latest fiscal year -Cost estimate considering all the components and rate analysis | - |
| 6 | Miscellaneous | <ul style="list-style-type: none"> -Routine maintenance plan and routine cleaning plan -Provision for sand traps and solid waste traps in certain intervals | - |



Annexure: IV (d) Checklist for Water supply (Utility infrastructure)

Checklist for Water supply (Utility infrastructure)

| S.N. | Issues | Particulars | Remarks |
|------|-----------------------------|---|--|
| 1 | Design features | <ul style="list-style-type: none"> - Analysis of demand of water - Design of water intake - Design of water treatment system - Design of water pumping system - Water storage - Water distribution system - | - Mass gathering for recognition of local problems |
| 2. | Planned component | <ul style="list-style-type: none"> - Water intake - Pipes including joints - Water storage tank - Pump - Transmission and distribution lines | - |
| 3. | Specification | <ul style="list-style-type: none"> - Demand analysis for calculation demand - Hydraulic design for determination of size (capacity of the drainage) - Structural design | - |
| 4. | Construction material | <ul style="list-style-type: none"> - Local material as much as possible - Locally manageable technology | - |
| 5. | Drawings with cost estimate | <ul style="list-style-type: none"> - Master layout plan - Longitudinal section and cross section of pipes and other components (e.g. - Rate analysis according to the latest fiscal year - Cost estimate considering all the components and rate analysis | - |
| 6. | Miscellaneous | <ul style="list-style-type: none"> - Routine maintenance plan | |

Annexure V: Check list for Appraisal of Financial Viability

| S. N. | Check | Y | N |
|-------|--|---|---|
| 1 | Check the sufficiency of the required information | Y | N |
| 1.1 | Does the FSR/DPR clearly explain and justify the assumptions and estimates to be made in the financial model for appraisal? | Y | N |
| 1.2 | Are the assumptions made as above reviewed to make sure that they are reasonable and appropriate? | Y | N |
| 1.3 | Does the FSR/DPR identify a set of values for cost and revenues assumptions that consider most likely to the project once started? | Y | N |
| 1.4 | Is the following information available? | Y | N |
| 1.4.1 | Capital cost including price and physical contingencies along with the following | Y | N |
| 1.4.2 | Construction Cost (CAPEX) | Y | N |
| | a) Replacement capital | Y | N |
| | b) Working Capital | Y | N |
| | c) Residual value | Y | N |
| 1.4.3 | Drawdown of funds | Y | N |
| 1.4.4 | Justification of Cost Effectiveness (Alternatives of Projects) | Y | N |
| 1.4.5 | Operation and maintenance (O&M) costs | Y | N |
| 1.4.6 | Financing and financing cost other information: | Y | N |
| | a. Financing mix | Y | N |
| | b. Opportunity cost of debt | Y | N |
| | c. Opportunity cost of equity | Y | N |
| | d. Period of loan and grace period | Y | N |
| 1.4.6 | Other assumptions on fiscal and microeconomic indicators like: | Y | N |
| | a. Corporate tax rate | Y | N |
| | b. Value added and other indirect tax and levies | Y | N |
| | c. Exchange rates | Y | N |
| 1.4.7 | Inflation and cost escalators in real and nominal terms | Y | N |
| | a. Real: | Y | N |
| | b. Nominal: | Y | N |
| 1.4.8 | Expected number of users or customers | Y | N |

| | | | |
|--------|---|---|---|
| 1.4.9 | Average volume of consumption per user or consumer of the service provided by the project | Y | N |
| 1.4.10 | The highest affordable tariff or fee that each user could be charged, segregated by user group (if practical) | Y | N |
| 1.4.11 | The fees currently charged for such service in the service area, if applicable (also to be indicated in 1.4.13) | Y | N |
| 1.4.12 | Average tariff collection rate | Y | N |
| 1.4.13 | Analysis of With and Without Project Situation (socio-economic and financial perspective) | Y | N |
| 1.4.14 | Ensuring of fiscal sustainability of the project | Y | N |
| 2 | Check the result of the appraisal exercise | Y | N |
| 2.1 | Forecast future cash flow of the project | Y | N |
| 2.2 | Is Negative cash flow has been reported in the forecast | Y | N |
| 2.3 | Financial Viability of the project in terms of: | Y | N |
| | a. NPV | Y | N |
| | b. FIRR | Y | N |
| 2.4 | Is the NPV negative of FIRR /is below the opportunity cost of capital <i>(If the answer is negative and there is no possibility of any subsidy then the project shall have rejected and applicant shall be served with a notice to that effect.)</i> | Y | N |
| 2.5 | Any subsidy from the GoN or other available <i>(If the answer to this question is Yes then the action mentioned above in (iii) will not be changed. Else the case shall be decided by the authorities mentioned in this guidelines.)</i> | Y | N |
| 3 | Review the results | Y | N |
| | Does any indicator calculated above report discrepancies with engineering reports on PFS, FS and DED. | Y | N |
| | If the answer above is yes, mention the reason briefly: | Y | N |
| 4 | Recommendation | Y | N |
| 4.1 | Is the project eligible for investment based on the decision criteria of NPV and FIRR | Y | N |
| 4.1 | Covenants if any, (separate attachment may be given) | Y | N |



| | | | |
|-----|--|---|---|
| | | | |
| 4.2 | Is the project eligible for investment on the basis of subsidy or other viability gap funding? | Y | N |
| 4.3 | Anything not covered above, (separate attachment may be given) | Y | N |

Authorization:

| | | |
|---------------|--------------|---------------|
| | | |
| Appraisal by: | Reviewed by: | Finalized by: |

Annexure VI: Checklist for Loan Processing Documentation

Foundation Documentation

| S. N. | Descriptions | Date Requested | Date Received | If Recording Required: | | Not Applicable |
|-------|--|----------------|---------------|------------------------|---------------|----------------|
| | | | | Date Recorded | Date Returned | |
| a) | Borrowing Resolution of Governing Body | | | | | |
| b) | Loan Application Letter | | | | | |
| c) | Feasibility/Pre-feasibility Report | | | | | |
| d) | Detail Engineering Report | | | | | |
| e) | Legal and Institutional documents | | | | | |

Credit-worthiness Documentation

- a. Business Plan with FOP
- b. Audited Financial Statements as required (At least 5 years audit report for LBs)
User's consent on upfront cash contribution
- c. User's consent on fee/charge/tariff levy
- d. Documents pertaining to Government Subsidy
- e. Assessment completion

Appraisal Documentation

- a. Technical Appraisal
- b. Environmental and Social Safeguard clearance
- c. Legal and Institutional Appraisal
- d. Financial Appraisal

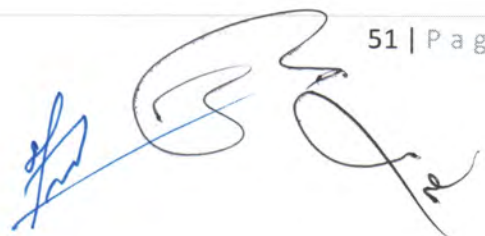
Security Mechanism Documentation

- a. Negotiations
- b. Negotiation on mechanism
- c. Borrower proposal on security
- d. TDF approval
- e. Execution of instruments/documents

Review and Approval Documentation

- a. Processing completed and forwarded by LRC
- b. Review and recommendation by IPC
- c. Approval by Board
- d. Financing Agreement Signed

| | |
|--------------|--|
| Compiled by: | |
| Reviewed by: | |

Handwritten signatures in blue ink, including a large stylized signature and a smaller one below it.

Annexure VII: Template for Disbursement Request Letter

Date:

TDF Loan Reference No:

Disbursement Request Serial No:

To: Town Development Fund
Kathmandu

Subject: DISBURSEMENT REQUEST FOR ADVANCE/PROGRESS/FINAL PAYMENT

Dear Sirs,

Pursuant to the TDP Investment Reserve Loan Agreement dated.....between the Town Development Fund and (Borrower's Name)for (Project Name), the undersigned hereby applies for the disbursement of loan from the above agreement in respect of Advance/Progress/Final Payment in respect of contract for amounting to Rs(in words... ..)

We certify that:

- a) The expenditures are made for the purpose specified in the Loan Agreement;
- b) The goods and services purchased with the expenditure have been procured in accordance with applicable laws of Nepal and the Donor's guideline, if applicable, as well as the TDF guidelines.

Please pay the amount requested herein by depositing in the account of..... (Name of borrower) with..... (Name and address of Bank) in account number.....

Please find enclosed herewithnumberpages of the copies of supporting documents for the payment.

We declare that the above statement is correct, if proves otherwise, we agree to bear the legal consequences thereof.

.....
Chief Executive Officer

For:

Annexure VIII: Template for Summary of Expenditure

| <input type="checkbox"/> | (Name of the entity) (Name of the Project) | | | | | | | | | | |
|--|---|-------------------------------|-------------------------------|-----------------|---------------------------------------|----------------------|-------------------|--------------------|-----------------------------------|-----------------------------|---------|
| Summary of Expenditure | | | | | | | | | | | |
| Item No: | Delivery Date | Description of Goods/Services | No. and Date of Contract/P.O. | Contract Amount | Name & Address of Supplier/Contractor | Expenditure Incurred | Amount to be Paid | % of TDF Financing | Amount Requested for Disbursement | Contractor/Supplier Invoice | Remarks |
| | | | | | | | | | | | |
| Note: This summary is prepared according to the approved invoice of the supplier/contractor. | | | | | | | | | | | |



Annexure IX: Statement showing changes in TDP Investment Reserve balances

| Statement showing changes in TDP Investment Reserve balances | |
|--|---|
| A | Fund Balance at the beginning of the year |
| B | Addition to Fund during the year |
| | Additional contribution from donor |
| | Interest on Loan investment |
| | Other Income from Investment |
| C | Deduction during the year |
| | Refund to Donor, If any |
| | Administrative and Collection Expenditure |
| | Other Expenditure and write offs |
| D | Net adjustment (B-C) |
| E | Fund Balance at the end of the year (A+D) |

Handwritten signatures in blue and black ink, located below the table.

Annexure X: Template for Project Implementation Report

.... Trimester/ F.Y..... IPR

Implementation Progress Report

..... (Name of the entity)

..... (Name of the Project)

| Date /Activities Start Date | Pre-Feasibility | Feasibility | Detail Design | Loan Approval | Contract Agreement | Implementation | | | | | Remarks | |
|--------------------------------|-----------------|-------------|------------------|------------------|-----------------------|----------------|------------|------------|------------|------------|---------|--|
| | | | | | | Activity 1 | Activity 2 | Activity 3 | Activity 4 | Activity 5 | | |
| Planned Completion Date | | | | | | | | | | | | |
| Revised Completion Date | | | | | | | | | | | | |
| Date Completed | | | | | | | | | | | | |

Reason for Revision of completion date with TDF approval.

Annexure XI: Template for Output Monitoring Report

.... Trimester/ F.Y IPR

| Progress Report (Name of the entity) (Name of the Project) Period..... | | | | | | | | | | | | Amount Rs. '000 | |
|---|-------------|-------------------|--------|------------|--------|--------------|---------|---------|---------|--------------------|-----------------|-----------------|-----------------|
| S.No: | Description | Physical Progress | | | | Cost to Date | | | | Plan to Completion | | | |
| | | This period | | Cumulative | | Actual | | Planned | | Revised | | Original | |
| | | Planned | Actual | Planned | Actual | Actual | Planned | Actual | Planned | Total Cost | Completion Date | Total Cost | Completion Date |
| 1 | | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | | |
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Annexure XII: Template for Contract Expenditure Report

| <input type="checkbox"/> | Implementation Progress Report | | | | | | | | | | | Trimester F.YIPR |
|----------------------------|--------------------------------|--------------------|-----------------|----------------------|-----------------|------------------------|------------------------|---------------------|---------|--|--|------------------------------|
|(Name of the entity) | | | | | | | | | | | | |
|(Name of the Project) | | | | | | | | | | | | |
| Period..... | | | | | | | | | | | | |
| S.No: | Contract Description | Procurement Method | Contract Number | Supplier/ Contractor | Contract Amount | | Amount Invoice to date | Amount Paid to date | Remarks | | | |
| | | | | | Original | With variation, if any | | | | | | |
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Abbreviations:

- CS : Construction Supervision
- DED : Detailed Engineering Design
- DPs : Development Partners
- FS : Feasibility Study
- GoN : Government of Nepal
- FIs : Financial Institutions
- IMS : Information Management System
- LBs : Local bodies
- NRB : Nepal Rastra Bank
- MoUD: Ministry of Urban Development
- PPP : Public Private Partnership
- TDF : Town Development Fund
- TDP : Town Development Program
- SOP : Standard Operating Procedure

