

Eng./Nep. Translation

Dispatch No. 22

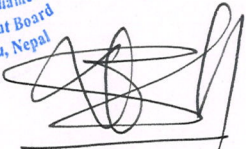
D.O.I. 25 July 2023

## Town Development Fund

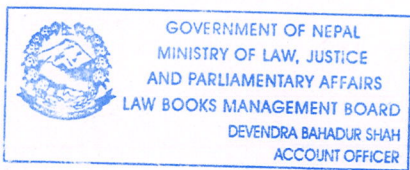
New Baneshwor, Kathmandu

### Strategy Paper for Expanding Scope of Works and Capital Restructuring of Town Development Fund





July 25, 2023

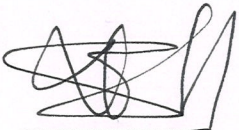


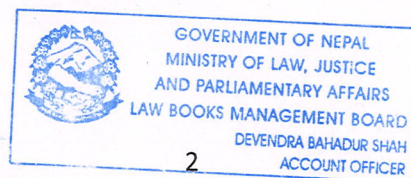
## 1. Background:

The Town Development Fund is an autonomous financial intermediary institution established under the Town Development Fund Act, 1997, which was initially formed as the Town Development Fund Board under the Development Board Act, 1956. The Fund has been continuously supporting local levels, institutions relating to urban infrastructure development and consumers committees relating to drinking water and sanitation under small towns through the means of loan, grants, technical assistance, study and research for development of social and revenue generating economic infrastructures with the financial support of the Government of Nepal and other bilateral/multilateral institutions.

Since its incorporation to date, the Fund has approved loan and grant amount equal to NPR 1,967,700,000/- (One Billion Nine Hundred Sixty Seven Million Seven Hundred Thousand rupees) for 1,353 Projects and financed the amount equal to NPR 14,192,500,000/- (Fourteen Billion One Hundred Ninety Two Million Five Hundred Thousand rupees). Huge financing is needed in the construction, development and expansion of urban infrastructures in order to manage the rapid urbanization and improve urban environment and living standard. In the present context of the necessity of financing in order to attain the targets set by the fifteenth five years plan such as increasing per capita national income, quality human capital formation and graduating Nepal to a developing country within a stipulated period of plan reducing the financial risks, it is necessary to mobilize alternative financial instruments in construction and development of large and economic infrastructures.



  
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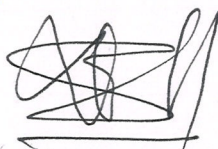
The National Urban Policy, 2007 and the National Urban Development Strategy, 2017 have pointed out the necessity of restructuring the Fund as an efficient institution so as to identify and mobilize various financial sources for infrastructure development including capital growth.

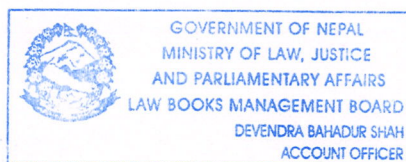
As the Constitution of Nepal provides for the structure of the state and distribution of state power in three levels, namely the federal, provincial and the local level, therefore, it has been continuously stated in the annual programs and budgets of the Government of Nepal from the F.Y. 2019/20 to the F.Y. 2022/23 about developing the Fund as a competent institution to mobilize alternative capital in infrastructure development in order to expand the Fund's scope of work and make its service effective.

## 2. Reasons for restructuring the Fund:

- (a) It has been stated in the budget of F.Y. 2019/20, F.Y. 2020/21, F.Y. 2021/22 and F.Y. 2022/23 as well as in the various annual programs of the Government of Nepal presented to the Federal Parliament about restructuring the Town Development Fund established under the Town Development Fund Act, 1997.
- (b) It is necessary to form a competent and professional financial institution to mobilize financial resources required for the development of urban infrastructure at provincial and local level in accordance with the federal structure.




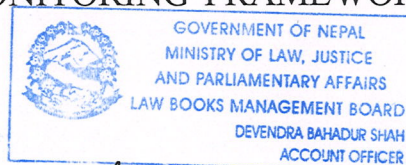
  
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- (c) There is no clear provision of capital structure in the prevailing Act of the Fund and, capital structure with capital growth is in need to mobilize long-term loan in urban infrastructure.
- (d) It is stated in the National Urban Policy, 2007 about identifying and mobilizing various financial resources for the urban infrastructure development.
- (e) It is stated in a strategy of the National Urban Policy, 2007 about strengthening the capital flow of the town development Fund and therefore, ensuring easy access of the concerned agencies in the urban infrastructure development.
- (f) It is stated in the National Urban Development Strategy, 2017 under urban finance management about increasing own capital so as to develop the Town Development Fund as a competent financial institution.
- (g) It is stated in various reports submitted to the Government of Nepal about restructuring the Town Development Fund with legal mechanism for capital growth, restructuring the Fund in a way that it can provide sub-national borrowing and restructuring the Fund with capital structure equal to the amount of NPR 20 billion.
- (h) The approved professional work-plan (2020-2024 A.D) of the Fund has set its goal of legally restructuring it with capital amount increased to the amount of NPR 20 billion.
- (i) It is stated in section 1.6 of the Prior Reform Action: Sub Program 1 (Reform Area -2) of the PRELIMINARY POLICY DESIGN AND MONITORING FRAMEWORK relating to the



  
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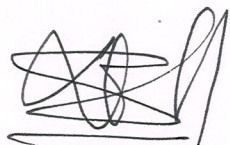
subject of receiving concessional loan equivalent to USD 200 Million as budgetary assistance in accordance with the agreement between the Ministry of Finance, Government of Nepal and the Asian Development Bank under *Nepal: Strengthening Public Finance Management and Devolved Service Delivery Program* that the restructuring strategy of the Fund should be approved from the Council of Ministers of the Government of Nepal in a way to immensely expand the scope of the Fund along with capital growth for the development of urban infrastructure of local levels.

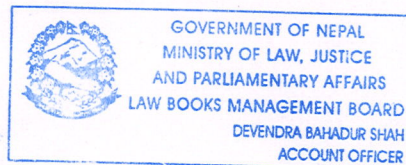
### 3. Expanding Scopes of Work:

The current scope of work of the Fund shall be expanded as follows: -

- (a) Provincial and the Local Level;
- (b) Urban Development Projects selected or recommended in accordance to Public-Private Partnership concept of the Government of Nepal, provincial government and local level;
- (c) Agency or project or Company operating projects relating to urban infrastructure development;
- (d) Loan, grant, sharing or capital financing of similar nature to agencies relating to urban infrastructure development;
- (e) Financing the share or debenture issued by any bank, financial institutions or companies relating to urban infrastructure development;
- (f) Financing in debenture and securities issued by the Government of Nepal.



  
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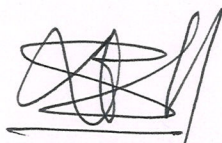
#### 4. Legal Restructuring:

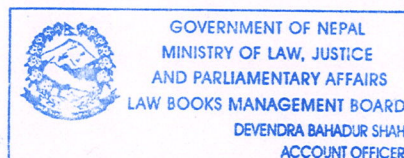
The Town Development Fund Act, 1997 has established the Fund as a statutory body established by a separate Act. Pursuant to section 4 of the Act, the Fund is an autonomous and corporate entity with perpetual succession. Pursuant to section 31 of the same Act, the Government of Nepal may issue order or directive to the Fund and the Fund has to abide by the same. The legal restructuring of the Fund shall be carried out in order to operate the Fund as a fully autonomous and professional institution, to expand the scope of work, to restructure the capital, to bring managerial restructuring including that of the Board of Directors, to secure the financing and to provide for regulatory measures.

#### 5. Capital Restructuring:

(a) The Fund has been actively engaged in the field of urban infrastructure development by raising capital, identifying areas to finance and mobilizing capital so as to promote financing in municipal development and urban infrastructure. Generating capital of the Fund, mobilizing the accrued income, managing the operational costs, capital cost and paid up capital are integral aspects of the Fund's functional operation. In addition, provisions shall be made as to injecting additional capital by the Government of Nepal from time-to-time in case it is necessary for the Fund and to generate more capital through loan or debenture.

(b) It shall be provisioned in a way that the authorized capital of the Fund shall be equivalent to NPR 50 billion, issued capital

  
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equivalent to NPR 50 billion and paid up capital equivalent to NPR 20 billion.

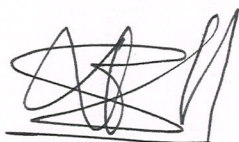
- (c) It shall be provided that allocation of shares shall be made by classifying them in various classes of shares in such a way that at least 51% of the share shall be under the ownership of the Government of Nepal and the remaining shares shall belong to corporation, Fund, enterprises, company, bank, national and international financial institutions under the ownership of provincial government, the local level and the Government of Nepal.
- (d) It shall also be provided that the management and mobilization of net profit shall be done by the Board based on the financial statements prepared in accordance with the norms of the prevailing accounting system.

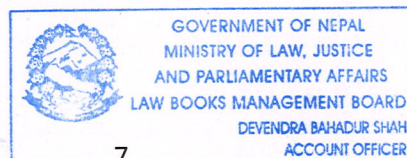
## 6. Financial Resources:

Financial resources of the Fund shall be as stated hereunder:

- (a) Amount received from the Government of Nepal, provincial government and the Local Level;
- (b) Loan, grants or any financial support obtained from bilateral, multilateral, donor agencies or international institutions, non-government institutions, private sector, banks and financial institutions;
- (c) Revenue generated from financing;
- (d) Debentures issued in accordance with the prevailing laws;
- (e) Other assistance obtained from various sources;



  
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- (f) Income accrued from the sales of Fund's properties in accordance with the prevailing laws.

**7. Restructuring Board of Directors of Fund:**

- (a) There shall be a Board of Directors for the operation and management of the Fund. In order to make the Board accountable towards the Government of Nepal, balance shall be struck among accountability, professionalism and autonomy.
- (b) Under the chairpersonship of the Secretary at the Ministry of Urban Development, the Board of Directors shall be formed based on the ratio of share investment from amongst Directors of the related class of shares and Chairperson or Deputy Chairperson of local level or Chairperson of the Nepal Municipality Organization and an expert in the related field nominated by the Government of Nepal.

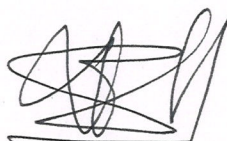
**8. Management structure**

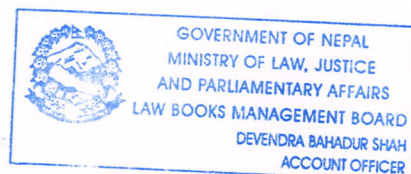
The employees shall be managed and mobilized on the basis of the Organization and Management Survey Report for the required employees in order to mobilize capital by establishing the Fund as an autonomous and professional institution with additional scope of work. In order to carry out everyday functions of the Fund, the Chief Executive Officer shall be appointed through an open competition.

**9. Security of Fund's Finance:**

- (a) Section 13 of the Town Development Fund Act, 1997 provides the Fund for its first right of claim only at the dissolution of an agency or institution. In order to secure the finance, provision



  
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shall be made to have the first right of claim on the cash flow and assets of the debtor.

- (b) Other appropriate legal provisions shall be made for recovery of loan from agencies which have availed loans from the Fund. Provision of revenue intercept shall be made for the recovery of loan through deduction from the revenue to be provided by the Government of Nepal to a provincial government and local level in case of default made in payment of loan within the stipulated time period.

## 10. Regulation of Fund

The Nepal Rastra Bank shall be designated as the regulatory body in order to make effective the debt financing and forfeiture procedures of the Fund.



A handwritten signature in black ink, appearing to be "Devendra Bahadur Shah".

July 23, 2023

