

# 2016-17

## ANNUAL REPORT



**30<sup>th</sup>**  
**ANNIVERSARY**  
**PUBLICATION**  
**2018**



**TOWN DEVELOPMENT FUND**

New Baneshwore, Kathmandu, Nepal

Phone No.: +977-1-4493866, 4465651

Website: [www.tdf.org.np](http://www.tdf.org.np)

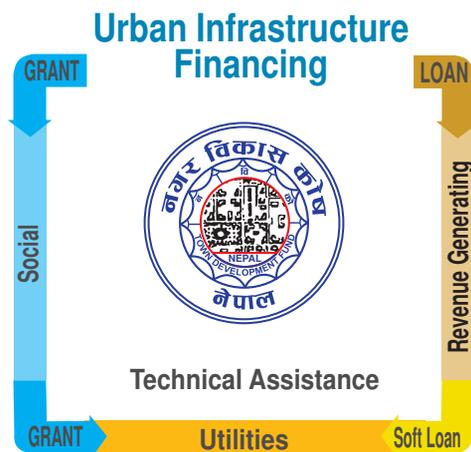


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by Town Development Fund

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## Our Mandate



## TOWN DEVELOPMENT FUND

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Phone No.: +977-1-4493866, 4465651  
Website: [www.tdf.org.np](http://www.tdf.org.np)



## Message

I am pleased to know that Town Development Fund (TDF), while serving the nation for the past 29 years has successfully provided grants, loans and technical assistance to the municipalities and contributed towards creating the culture of debt financing for urban infrastructure projects and improving the service level as well.

TDF as a financial intermediary has played a crucial role in addressing the current and upcoming challenges of urban infrastructure financing by scaling up its equity base. This has encouraged Government to broaden the scope of funding for the growing demand of urban infrastructure resulting from rapid urbanization process, by attracting private capital into urban infrastructure and facilitating for better performing sub- national governments to access capital market.

With the growing challenge of financing the burgeoning demand for urban infrastructure, there is a strong need for TDF to take a leap from a "business as usual" mode towards a sustainable municipal financing intermediary. This includes extending our commitment for constituting TDF as a prominent municipal financing intermediary and providing support in strengthening towards a sustainable municipal financing system.

The Government is committed and has already initiated towards enhancement of financing for infrastructure development by streamlining inter-governmental fiscal transfers, assigning clear mandates on expenditures' right of sub-national governments, developing rationale system for natural resource utilization and its sharing among three tiers of governments, supporting local levels in mobilizing their own revenue source and transforming TDF into a strong financial intermediary for scaled up sub- national borrowing.

Hence I would like to congratulate the TDF family this occasion of 30<sup>th</sup> anniversary and wish for all the success in future endeavors.

**Gyanendra Bahadur Karki**  
**Minister**  
**Ministry of Finance**



## Message

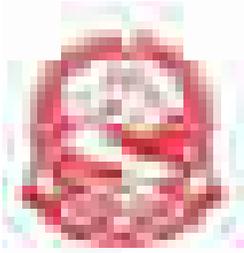
I would like to congratulate TDF family on the Town Development Fund (TDF) publishing its occasion of its 30<sup>th</sup> Anniversary.

Urban Nepal has been growing, and growing fast, with a share of more than 60% of the population and number of municipalities reaching 293, the insufficient and inadequate infrastructure would require catering the rapid increasing demand. Municipalities fall short of financing such infrastructure through their own resources and look to the government and other sectors for the same. With the change in priority of the government from rural to urban focus such infrastructure are possible to be added through sub national borrowing which is a worldwide proven tool for such projects.

TDF in one institution which has pioneered similar financing in the urban areas for the past two decades and half, through its loan and grant financing instruments to municipalities and small towns. This vast experience would be more suitable for the quenching the current demand of municipalities to fund their demand for municipal infrastructure, as TDF follows a systematic approach for financing to make the facility operationally sustainable. This not only helps the municipalities and the urban areas but also strengthens TDF as a “to-go-to” financial institution for such long term financing as other the country lacks similar alternatives. This would also mean that TDF needs to be scaled-up for addressing the huge need of finances, as it is necessary to grow above its current capacity.

Furthermore, I would like to thank all the concerned development partners and municipalities for their support and cooperation with TDF in the past and look forward for future cooperation to establish TDF as an institution to support towards an enhanced sub-national borrowing in the country.

Udaya Shamsher JB Rana  
**State Minister**  
**Ministry of Finance**



Government of Nepal  
**MINISTRY OF FINANCE**



## Message

I am pleased to learn that Town Development Fund (TDF) is publishing its "Annual Report" on the occasion of its 30<sup>th</sup> Anniversary.

Currently, more than sixty percent of the population lives in 293 municipalities, where the infrastructure is poor and financing needs are tremendously high. Our country, with the promulgation of the new constitution, is undergoing a paradigm shift, focusing from rural to urban and prioritizing for urban development, as growth engines which entails sub national borrowing, managed through TDF more crucial.

TDF has been successful in developing local borrowing culture in the country through its loan and grant financing instruments to municipalities and small towns. More importantly, projects financed by TDF are following systematic procedures viz. the asset management plan to make the facility operationally sustainable. This has often created conducive environment for facility users to pay the required tariff and lead towards making projects operationally sustainable. Hence the ever increasing demand for urban infrastructure would be sustainably implemented if it is coupled with the experience of TDF. TDF needs to be scaled up from the existing setting to do so.

I would like to congratulate TDF Management Team for carrying out this important annual publication, which highlights about TDF's genesis, project scenario, institutional strength, its preparation of restructuring, current financial position and pertinent issues of urban finance in Nepal. This annual publication, I believe, will be helpful for officials working in the municipalities, Government officials, development partners and general readers at large to know the sub national borrowing practices in Nepal.

I take this opportunity to thank all the concerned development partners and municipalities for their commendable support and cooperation with TDF in the past and look forward for future cooperation to establish TDF as an institution to support towards an enhanced sub -national borrowing in the country.

**Shankar Prasad Adhikari**

**Secretary**

Ministry of Finance



## Message

It is a matter of great pleasure to know that Town Development Fund (TDF), which was established twenty nine years ago, is celebrating its 30<sup>th</sup> anniversary, and publishing its annual report on this auspicious occasion.

TDF has played a commendable role in supporting municipalities to create urban infrastructure providing subsidized and long term loans, through the sub-national borrowing modality. This modality has provided opportunity for creating self-cost recovering projects through rental value of asset or services offered under users-pay principle.

Predictable inter-governmental fiscal transfers, clear mandates on expenditures right of sub national governments, rationale system for utilization of natural resource and its sharing among the newly structured 3-tier government supporting local levels in mobilizing their own revenue source and established sub-national borrowing with effective institutional mechanisms are crux of effective sub-national finance.

TDF has made encouraging progress in the field of preparing bankable projects, conducting sound appraisals, financing of urban infrastructure projects for long terms and recovering the loans. It has encouraged Government to broaden the scope of the Fund, with a view to attract private capital into urban infrastructure and facilitate better performing sub-national governments to access capital market. This process would be possible through up-scaling of TDF into a strong financial intermediary for effective sub-national borrowing and is one of the key agenda of government.

Finally I would like to congratulate the TDF management for bringing this publication and wish all the best for successful endeavors of the organization in the days to come.

Shishir Kumar Dhungana  
**Secretary (Revenue)**  
**Ministry of Finance**



# Town Development Fund

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## Message



I am pleased to mention that TDF has cherished techno-financing experiences of 29 years and celebrating its 30<sup>th</sup> Anniversary. Its rich experiences are documented in its Annual Report 2018.

TDF's institutional insights and know how on project design, project appraisal, procurement, construction management and risk management are at state of the art level.

TDF has a strong role to play in addressing the ever growing demand of municipal debt financing in the days to come. For this, TDF should maintain its professional rigor on the one hand and ensure institutional autonomy during its proposed restructuring while scaling up its mandates and services.

We look forward for future cooperation in financing municipal infrastructure with development partners, municipalities and government agencies in the days to come.

**Dhruba Rijal**  
**Chairman**  
**Town Development Fund**



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## Our Commitment

While Town Development Fund (TDF) is celebrating its 30<sup>th</sup> Anniversary, it has successfully financed more than 1200 urban infrastructure projects in the municipalities and small towns of Nepal. With ups and downs in Financing Water Supply projects in 72 small towns, all water utilities have been managed in a sustainable manner now. Over the last two and half decades, several municipalities have built and managed well-functioning bus terminals providing the proper services of urban transport service and the facilities have been an attractive regular source of municipal revenue through its operation. TDF is the only financial intermediary in Nepal, which has been contributing in developing borrowing culture in the municipalities of Nepal and leveraging municipal finance at large.

At present, municipalities need at least NPR 23 trillion for next one decade i.e. about 1.9 trillion annually to meet 60% of its basic urban infrastructures and services need; viz. roads, drinking water, storm water drainages, and bus parks. The present annual capital investment of municipalities; comprising of inter-governmental fiscal transfers (IGFT), municipal own source revenue (OSR) and TDF financing amounts to about NPR 32 billion only.

TDF has a strong role to play in mobilizing resources and financing the economic and social infrastructure of municipalities using blended finance options available locally and internationally. Municipalities need to mobilize huge volume of finance to materialize their vision, but is handicapped with limited capital, stressed loan assets, and low revenue streams. In future, urban infrastructure could be sustainably financed through a mix of local revenue, central transfers and sub-national borrowing from dedicated financial intermediaries like TDF, by forging partnership with private sector, NGOs and community organizations, and opting for commercial borrowing for financially viable projects. This indicates huge potential of TDF in the urban infrastructure financing sector.

National borrowing need to be utilized for leveraging revenue surplus of municipalities and government grants for multi-year infrastructure investments, required to realize SDGs and vibrant urban development of cities of Nepal. Finally, TDF's Business Plan (2016/17-2019/20) exhibits commitment to transform it into a strong financial intermediary institution of Nepal.

On this occasion, we would like to extend our sincere thanks to municipalities, small towns, and development partners for their continued support, and sustained cooperation in the past and expect more intensive cooperation in future.

*Manu Mahat*

Maniram Singh Mahat  
Executive Director  
Town Development Fund

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## Acronym

BRAP	Business Restructuring Action Plan
CAPEX	Capital Expenditure
CIP	Capital Investment Plan
DPs	Development Partners
DUDBC	Department of Urban Development and Building Construction
giz	Deutsche Gesellschaft für Internationale Zusammenarbeit
GPOBA	Global Programme on Output Based Aid
GTZ	Deutsche Gesellschaft Für Technische Zusammenarbeit
ID	Institutional Development
IUDP	Integrated Urban Development Program
KSUTP	Kathmandu Sustainable Urban Transport Program
MoFALD	Ministry of Federal Affairs and Local Development
NEEP	Nepal Energy Efficiency Programme
OPEX	Operating Expenditure
P4R	Programme for Results
PDO	Project Development Objective
PMO	Project Management Office
RF	Revolving Fund
SDR	Special Development Rights
STIUEIP	Secondary Town Integrated Urban Environment Improvement Program
STWSSSP I	Small Town Water Supply and Sanitation Sector Programme I
STWSSSP II	Small Town Water Supply and Sanitation Sector Programme II
STWSSSP III	Small Town Water Supply and Sanitation Sector Programme III
SWM	Solid Waste Management
SWMTSC	Solid Waste Management Technical Support Centre
TDF	Town Development Fund
TDP	Town Development Programme
UDTC	Urban Development Training Centre
UEIP	Urban Environment Improvement Program
UGDP:ETP	Urban Governance and Development Programme : Emerging Towns Project
WUSA	Water User and Sanitation Association
WUSCs	Water User and Sanitation Committees



# Town Development Fund : At a Glance

*"TDF envisions to be a leading financial intermediary institution for promoting sustainable urban infrastructure financing in Nepal through blended financing options."*

## Genesis

**T**own Development Fund (TDF) was established as "TDF Board", by Formation Order 1988 and made as an autonomous entity under the TDF Act 1997. Initially, TDF was funded as a combination of loans from the World Bank, grants and technical assistance from German Technical Cooperation (GTZ) and equity fund from government of Nepal (NRS 10 million) until July 1997 and technical assistance from United Nations Centre for Human Settlements (UNCHS) until December 1993. These funds were pooled as a capital of TDF for providing loans, soft loans and grants for social infrastructure projects, urban utility projects and revenue generating projects. TDF has been strategically placed under Ministry of Finance (MoF) from Ministry of Urban Development (MoUD) effective from January 2015 to position itself as a financial intermediary institution.

## Objective Mandate of TDF

Town Development Act 2053 has given TDF autonomy to function as a financial intermediary institution for the development of urban infrastructures in Nepal. It provides financial support to municipalities and emerging towns to implement social and income-generating projects. It also supports to strengthen the technical,

managerial and financial capabilities of municipalities in formulation, implementation and evaluation of urban development plans and programs.

## Mission

TDF aims to alleviate economic and social poverty in urban sector through long term financing in social and revenue generating infrastructure projects. It aspires to mobilize blended finance alternatives and strives to offer long term infrastructure finance solutions through its techno-financing experience, innovations, and by continuously upgrading its institutional capacity.

## Vision

TDF envisions to evolve as sustainable financial intermediary institution for promoting sustainable urban infrastructure financing for social, environmental and economic infrastructure projects of municipalities and urbanizing local governments of Nepal.

## Institutional Strength

### Institutional Strengths of TDF

TDF with its rich experience of twenty nine years in urban infrastructure financing, has adopted a loan and



grant financing policy, which is agreed by GoN, donors and clients at large. It adheres to a Standard Operating Procedures (SoPs) for its business processing, clearly defined job descriptions, and scientific key performance indicators –KPIs in place for current level of functions for enhanced institutional efficiency. Its Market oriented remuneration and benefits packages provided to the contract-based expert staff and the long term benefit packages to permanent staffs have opened its door to qualified and committed employees. The Employees' Service Conditions Bye-Laws is in place, and TDF follows the same stringently.

### Systematic Project Appraisal System

TDF has strengthened its institutional capacity by adopting the 'Project Appraisal Manual'. TDF's project appraisal process is robust enough to screen the project in terms of its technical soundness, economic viability, financial feasibility, and social/political acceptability.

### Funding Scope

TDF is mandated to finance local levels (municipalities and emerging towns), corporations, boards, authorities, NGOs and users committees related to urban development. TDF Act 1997, has mandated to raise fund through the government, international donors and other national and international financial institutions, paving way for potential areas of resource mobilization. Additionally, there is a provision of fund-raising through the issue of shares, bonds, debentures, including consortium and bridge financing approach in the TDF Act 1997, for which TDF can take initiatives.

## Strategic Orientation

Strategic orientation of TDF is based on the following aspects:

### Internal Strategies for Institutional Development

TDF's Business plan is a road map for transforming TDF into an Urban Financing Intermediary Institution. The project appraisal manual has been fully adopted by 2017. MIS and accounting system (micro banker) have been further enhanced for efficient business processing and reporting. TDF has fully institutionalized the performance based monitoring system, SOPs and KPIs for all of business units and thereby link to performance based incentive mechanism. TDF has focused on studying problematic projects on a regular basis to

restructure or reschedule its loan installments as and when deemed necessary, for loan recovery.

### External Strategies for the Creation of Enabling Environment

TDF, to enhance capacity for sustainable operation of projects financed by TDF, allocates dedicated amount of its annual profit to support municipalities and small towns. It works closely with the government and the donors to include the technical assistance packages, as an integral component of the loan investment, especially for the financial reform and the service delivery improvement of the municipalities. It is supporting local levels in preparing basis for tariffs, fees & taxes before taking decision on any investment projects. It has already established an "open access – criteria based" fund, though it is at nascent stage currently. TDF will work together with the financial institutions and the insurance companies for mobilizing their long term fund in urban infrastructure development. As provisioned in the foreign aid policy of Nepal, TDF is working with the government of Nepal and donors for establishing a pooled fund, and has been a strategic institution for GON in preparing and implementing the 'National Urban Development Strategy'.

### Road Map for Institutional Transformation

The current situation demands TDF to be positioned as a visible and sustainable Financial Intermediary Institution by implementing strategic actions, as mentioned in its Business Plan (2016/17-2019/20); with specific business targets, strategic action plans and institutional development package. It envisions to finance sub- national governments, especially local level, using blended financing options in partnership with private sectors, Development Partners (DPs), municipalities and government.

### Growing Equity Base

TDF's equity has increased from NPR 10 million to NRs 4 billion, but considering the current demand, for financing in 293 municipalities, this figure needs to scale up to NPR 20 billion.<sup>1</sup> It will apply the market based interest rates and initiate alternative ways of fund raising like PPP and bond market along with some pilot projects.

<sup>1</sup> Ministry of Urban Development, 2015 National Urban Development Strategy



### Development of Capital Market

TDF is mandated to explore the market for funds when required. With the growing capital market, there is potential for blended financing in collaboration with other financing institutions and insurance companies, and also raising fund from domestic and international capital market. Donors like WB, ADB and KfW are interested to scale up their financing to municipalities of Nepal through TDF and can support in the development of similar instruments.





# Positioning of TDF in Urban Infrastructure Finance

## Financing Gap

Nepal's urban sector exhibits encouraging trends of urbanization and economic development, as the population has grown from 17% in 2011 to 60% by 2017 in 293 municipalities. Urban areas have mostly grown haphazardly, expanding over hazardous zones viz. flood-prone, earthquake sensitive and land slide prone areas. Urban growth has not adequately transformed the potential production sectors in the hinterlands.<sup>1</sup> Despite its relative strength, with limited urban infrastructure in key cities and towns, the urban economy is operating under severe constraints. Urban centres with poor infrastructure cannot function as "engines of economic Growth". To meet the national targets of Sustainable Development Goals (SDGs), and achieve Nepal's national objective of sustainable and inclusive growth, it is estimated that Nepal must invest USD 40 billion in infrastructure over the 2009 -2025 period. Financing need for basic urban infrastructure in municipalities (for the next 15 years) is estimated to be about NPR 23 trillion. These facts suggest the need for multiyear investments in environmental and urban physical/logistic infrastructures based on systemic access to long term financing.

## Need of Blended Finance

Municipal financing in Nepal is primarily based on a non-commercial source i.e. from bilateral (giz) earlier and multilateral (ADB, IDA) grant and loan contributions as the commercial banks are not in the position for long term financing of municipal infrastructures, without collaterals and guarantee.

Municipalities have focused on need-specific capital projects compatible with their technical and financial capability, municipal borrowing capacity and revenue generating capacity of individual projects being the prime determinants, for financing. TDF loans have taken a catalyst role in triggering urban infrastructure development and growth, supplemented by grants in appropriate situation and composition.

**Revenue Generating Projects** of municipalities can be financed using blended finance tools viz. municipality's own fund, TDF loan, commercial bank loan and other DPs' grant to make projects financially viable. Land development, bus terminals, municipal commercial buildings and vegetable markets and vehicle parking lots can generate required cash flow through rents and such revenue may be sufficient enough to recover the cost including servicing its debt. However other infrastructure projects such as municipal sewerage and drainage, municipal roads, health infrastructures, and drinking water may fail to do so, and hence, would need to be financed using proper blend of loan and grant.

Given the narrow revenue base and limited capacity of government to perpetually finance capital expenditures without corresponding returns, the capacity of municipalities to finance their development from effective use of loans, and supported by grants, has become an imperative condition for long term goal of improvement in basic services. TDF, which aims to improve the living condition of the urban poor, has contributed in similar projects by financing social development projects in several municipalities by mobilizing the blended finance.



<sup>1</sup> ADB, 2010; Unleashing Economic Growth: Region Based Urban Development Strategy for Nepal



# Project Highlights

TDF with resources mobilized from KfW, WB, ADB, GoN, own equity and partnership with bilateral partners like GIZ has financed to urban infrastructure projects of municipalities and small towns to create sustainable infrastructures; viz. bus park, drinking water and sanitation, parks, commercial buildings and land developments projects in the last two and half decades of its operation.

**Table 1: Highlights of Resource Mobilization (subsidiary loan agreement between DP, GoN and TDF)**

Projects	Sources	Currency	Amount of Agreement		Remarks
			Loan	Grant	
IDA	IDA	SDR	7,800,000.00		Completed
TDP/gtz	GIZ	NPR	13,000,000	120,100,000	Completed
UEIP	ADB	USD	2,562,000		Completed
UGDP	World Bank	SDR	2,115,000	2,900,000	Completed
GPOBA	World Bank	USD		4,288,381	Completed
TDP I	KfW	DM		10,000,000	Completed
TDP II	KfW	EURO		7,705,548	Ongoing
TDP III	KfW	EURO		7,500,000	Ongoing
STWSSSP I	ADB	USD	12,000,000		Completed
STWSSSP II	ADB	USD	17,000,000		Ongoing
STWSSSP III	ADB	USD	18,000,000		Ongoing
STIUEIP	ADB	SDR	8,700,000		Ongoing
IUDP	ADB	SDR	8,594,000		Ongoing
KSUTP	ADB	USD		3,800,000	Ongoing



**Table 2. On-lending agreement between TDF, WUSCs and Municipalities**

Project	Sources	Amount of Loan Agreement (NPR)	Loan Disbursement (NPR)	Remarks
TDP II	KfW	700,768,006	391,122,034	Loan Period (12-20 Years) Interest Rate ( 6.5 - 10%)
TDP III	KfW	867,101,608	407,694,408	Loan Period 20 Years),Interest Rate ( 5.5 - 11.5%)
RF	TDF Own Source	212,600,000	139,820,374	20 Years Payback period and 8 % interest
UGDP	World Bank	253,300,000	162,564,536	Loan Period 20 Years/ Interest Rate 5 %
UEIP	ADB	195,362,457	182,872,017	Maturity Period 15 years, including 2 years grace period and interest rate of 7-8% per annum.
STWSSSP I	ADB	720,825,835	817,478,570	Maturity Period 15 years, including 3 years grace period and interest rate of 7% per annum.
STIUEIP	ADB	970,476,453	792,240,049	Maturity Period 20 years, including 5 years grace period and interest rate of 5% per annum
STWSSSP II	ADB	2,041,340,000	1,969,193,084	Maturity Period 20 years, including 5 years grace period and interest rate of 5% per annum.
STWSSSP I (Rehabilitation)	TDF Own Source	391,703,045	291,850,162	Maturity Period 10 years interest rate of 5-7 percent per annum.
STWSSSP III	ADB	1,507,590,000	737,210,000	Maturity Period 20 years, including 5 years grace period and interest rate of 5% per annum.
IUDP	ADB	1,014,848,493	745,112,102	Maturity Period 20 years, including 5 years grace period and interest rate of 5% per annum.
<b>Total</b>		<b>9,007,474,589</b>	<b>6,682,292,431</b>	





## Town Development Programme (TDP)

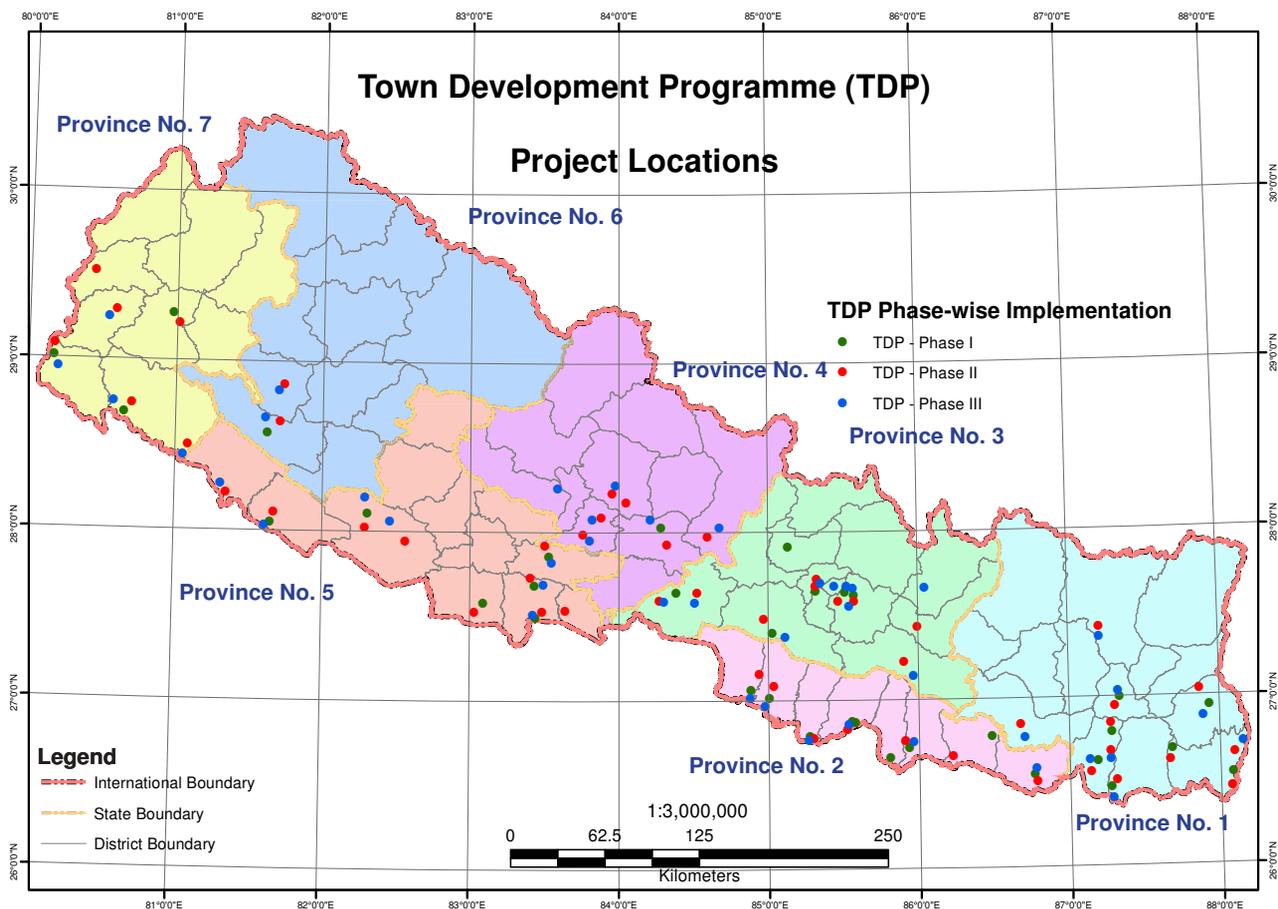
### Programme Concept

The main concept of the Town Development Programme (TDP) is to expand TDF as an efficient and sustainable financing institution for development of municipal infrastructures. The funds under TDPs were to be exclusively used to finance the local costs of communal infrastructure projects and income generating projects, such as Bus Park, Shopping Complex, Vegetable Market, Multipurpose

Building complex, Parks etc, including the local level planning and construction supervision.

### Project Area

58 municipalities: (Biratnagar, Nepalgunj, Birgunj, Butwal, Ramgram, Guleria, Bheemdatt, Mechinagar, Butwal, Malangawa, Lekhnath, Kalaiya, Siraha, Lahan, Walling, Putalibazar, Gaur, Rajbiraj, Dharan and Itahari )



Map 1: Map showing project locations of TDF financed projects under TDP I, II and III



## Programme Objectives

Shall prepare, implement, operate and maintain the project in conformity with sound financial and engineering practice and substantially in accordance with "loan and grant policy" agreed upon between the TDF and KfW.

## Programme Components

Revenue generating economic infrastructure (Bus Park, Shopping Complex, Vegetable market, multipurpose complex, Parks etc.) and social projects (Road, drainage, water supply, Preservation of Natural, Cultural, Archaeological or Heritage Sites, Slaughter house, Public toilet) in selected municipalities of Nepal

## Financing Modality

Sources of blended financing are TDF loan (40%), GON matching grant (50%) and municipal contribution (10%). TDF disbursed about NPR 18 Million (including 50% GON matching) by the reporting time. These projects were identified, appraised and agreement signed with municipalities during the reporting period. This type of fast-track approach for developing and appraising projects gives strategic benefit to TDF in developing similar projects in future and possibly leverage

the projects financing of TDF through GoN matching grant.

TDF has adopted the Investment Guidelines 2015 (Revolving Fund Guidelines), endorsed/approved by Ministry of Finance and received concurrence from KfW to ensure the investment approach.

## Expected Output

The project concerns the financing of revenue generating economic infrastructure and social projects in selected municipalities of Nepal through TDF loan and grant blended financing. The purpose of the TDP programme is the expansion of TDF as efficient, sustainable revolving fund for the financing of municipal infrastructure. This is to contribute to the safeguarding and improvement of the living conditions of the municipal population and thereby to assist the Government of Nepal in strengthening municipal infrastructures.

**Programme Name: Town Development Programme – Phase I (TDP-I)**

**Total Project Cost (In DM): 10 Million**

GoN signed financing agreement with KfW on 27 November 1995 for the total amount of DM 10 million



*Picture 1: Nepalgunj Municipal Building financed by TDF under TDP III*

## Town Development Fund

as grant assistance. The grant under TDP I were fully utilized for on-lending and disbursed to municipal projects (social and revenue generating projects). About DM 9 million was allocated for financing municipal infrastructure projects where as DM 1 million was allocated for financing feasibility studies and local supervision cost.

The projects financed under TDP I was successfully completed and secured the first milestone of debt financing urban infrastructure in Nepal. Under TDP I, total amount of NPR 340.9 million was approved for total number of 198 projects across the country. Among them, 17 projects were loan assisted projects, 177 projects were grant assisted projects and 4 projects were cancelled. Within the approved amount, TDF was able to disburse NPR. 113.4 million Loan and NPR 213.3 million grant and the remaining amount was transferred to TDP II. TDF has already recovered 100 percent loan amount of this project.

### Project Status: Completed



**Picture 2:** Bus Terminal Building at Butwal finance by TDF under TDP II



**Picture 3:** 1<sup>st</sup> Phase of Tulsipur Bus Park Project in progress, being financed by TDF under TDP III

### Town Development Programme – Phase II

GoN signed grant agreement with KfW on 30 November 2000 for total grant amount of DM 14,002,431.52 equivalent to EURO 7,159,329.55, under the ongoing TDP II. GoN and KfW signed supplemental agreement on 30<sup>th</sup> November, 2000 for additional amount of EURO 393,957.63.

Under TDP II total amount equivalent to NPR 924.3 million was approved for total number of 217 projects. Out of which, 38 were loan assisted projects and 179 were grant assisted projects. As of now, 31 loan assisted projects and 171 grant assisted projects have been successfully completed.

Under TDP II, TDF had financed total amount of NPR 391.12 as loan with interest rate ranges from of 6.5 percent to 10 percent in different types of project with 16 - 20 years of maturity period. Similarly NPR 208.6 million had been disbursed under TDP II as grant by the reporting period.



**Picture 4:** Biratnagar Bus Park and Bus Terminal Building nearing completion (on the left) and 3D View of Bus Park (on the right) financed by TDF under TDP II



**Project Status:** Ongoing (nearing completion)

### Town Development Programme – Phase III

GoN signed grant agreement with KfW on 11 July 2008 for total grant amount of EURO 7,500,000 for the TDP III programme.

Under TDP III, total amount equivalent to NPR 937.52 million has been approved for the 75 projects. Out of which, 22 were loan assisted projects and 63 were grant assisted projects. Out of total approved projects, 12 loan projects and 38 grant projects have been completed.

Under TDP III, TDF had financed total amount of NPR 361.33 as loan with interest rate ranging from 5.5 percent to 11.5 percent in the different types of project with 20 years maturity period. Similarly, NPR33.62 million had been disbursed as grant by the reporting period.

**Project Status:** Ongoing

### Way Forward

After the completion of the TDP I, II and III projects, TDF envisage to acquire a follow up programme in the form of TDP - Phase IV. TDF had already established a Revolving Fund (RF) from the repayment of all the TDPs programs to continue funding for the municipalities.



**Picture 5:** Shopping Complex Building at Srijana Chwok, Phokhara financed by TDF under TDP III



## Revolving Fund (RF) Projects

### Project Concept:

TDF has a Revolving Fund Programme – which is the mix of Government Grant (50%) and Town Development Fund, TDF's Equity (40%), which intends to finance projects in the municipalities. The initial positioning of the Revolving Fund was to fund small scale projects in the municipalities, Initially the Revolving Fund started to implement at least one project in each municipality, mainly focusing on projects that could be easily implemented, visible and have an immediate impact.

TDF's major financing sectors are as below<sup>1</sup>:

- 1) Social infrastructure projects (drainage, public toilet, slum area improvement, etc.)
- 2) Basic utility infrastructure projects (drinking water and sanitation, roads, bridges, public/municipal buildings, etc.)
- 3) Economic or revenue generating infrastructure projects (Bus Park, touristic place development, market place development, etc.)

### Financing Modality

The financing modality of the revolving fund projects comprises of Loan Grant and matching fund from the municipality. In each case the matching fund is 10 % of the project cost, whereas the loan and grant mix varies as per the project nature as mentioned in the above section. The interest rate for all loans is 8% (applicable to change). Under the revolving fund projects, the types of Loan Products and terms are as follows:

- 1) Social infrastructure projects: The loan grant mix is 10:80 and the term is for up to 20 year payback period with an interest rate of 8%.
- 2) Basic utility infrastructure projects: The loan grant mix is 30:60 and the term depends on the life of the infrastructure (varies), with an interest rate of 8%.
- 3) Economic or revenue generating infrastructure projects: The loan grant mix is 60:30 and the term is for up to 20 year payback period with an interest rate of 8%.

### Objective

The main objective of the Revolving fund was to start with smaller scales of investments in order to:

1. Increase the client base mainly among the new municipalities,
2. Familiarize with TDFs working procedure,
3. Gauge the capacities of municipalities to develop and implement new bankable projects.

### Expected Output

The revolving fund projects, to start with, had expected to achieve the following output from this portfolio.

- Improve the municipality's capacity to identify, develop and implement projects.
- Improve the municipality's institutional capacity, and decision making capacity:
- Enable, assist and support the municipality to develop projects
- Raise awareness in borrowing rather than focusing on grants
- Familiarize with TDFs working procedure
- Develop immediately visible projects and have immediate impacts on the service level and revenue generating capacity of the municipality
- Engage the community in infrastructure projects to share the cost and increase the ownership level
- Engage the partners in monitoring of the projects as well
- Increase the client base of TDF
- Enhance access of people to the infrastructure services
- Strengthen municipal capacity to loan for large projects.

### Current Status

The current Revolving Fund portfolio consists of 112 projects in around 61 municipalities. Out of the 112 projects around 90 have already been completed and

1 TDF, Lending and Grant Policy



*Picture 6: Completed Black Topped Road at Koshi Haraicha financed by TDF under RF Project*

the rest of them are nearing to completion, whereas 6 projects were not implemented despite approval, due to various reasons. The total value of the approved projects was around 530 Million (200 million loan and 330 million grant), whereas almost 80 % of the value of the utilized loan and grant has been disbursed (140 million loan and 235 million grant). Out of this many of these projects are constructed through users committee and rest through bidding process. All the responsibility lies within the municipality and TDF is monitoring the projects closely.

## Way Forward

The various lessons learnt from the short history of this portfolio leave a lot of scope to improve various aspects which is why TDF has initiated the online application procedure for the Municipalities. This was followed by training to all the 217 municipalities concerned personnel's (Executive Officers, Technical and Financial) on the application system, through 4 regional workshops. TDF also needs to improve its online system to regularly inform the municipalities about the status of the projects that they have submitted. Moreover the past practices have resulted in considering developing Bankable projects, rather than small investments, to bring in more engagement from both TDF and the Municipalities and

make the investment more meaningful.

TDF is also concerned about Quality monitoring of the implemented projects and hence would like to work on this area with the municipalities as well, not just to make the implementation sustainable but also to develop the capacity of the municipality. Hence TDF foresees that the process of developing "Bankable Projects" that would promote sustainable funding and help raise awareness among the municipalities on debt financing and its advantages. In addition to that TDF has also strives to provide technical assistance to municipalities in developing bankable projects.

TDF is in the process of developing a special investment guideline for RF projects as this is one of the lifeline projects of TDF after the completion of TDP projects.





## Small Town Water Supply & Sanitation Sector Projects (STWSSSP)

### Project Concept

In line with the GoN's 15-Year Development Plan (first prepared in 2009 and updated in 2015) for Water Supply and Sanitation in Small Towns, Asian Development Bank (ADB) has been supporting the Government of Nepal in enhancing water and sanitation services in small towns since 2001.

The Government of Nepal has been providing water supply and sanitation services in 70 small towns basically through co-financing model. The small towns are defined as towns that have (i) a population of 5,000 to 40,000, and (ii) perennial access to roads, grid power, and telecommunications i.e. potential for growth. Population concentration in most of these towns are caused by the rapid population growth in urban centers along major highways due to rural to urban migration. These towns were important links with rural areas acting as markets, transport depots and agricultural processing centers. However, basic services such as WSS were inadequate in these towns. The first small town project was completed in 2009, STWSSSP II completed in December 2017 and follow-up third phase-STWSSSP III sub projects are ongoing and nearing to completion.

### Project Objective

The objectives of the project were to (i) improve the health and quality of life of people living in the small towns with average populations of 12,000 each, by constructing water supply, drainage and sanitation facilities, and providing health and hygiene education; (ii) support community participation by developing the institutional capacity of community-based WUSCs, and by requiring the beneficiaries to make contributions in cash or kind to cover partial project costs; and (iii) support community participation by developing the institutional capacity of WUSCs, and require water users to make cash or in-kind contributions to cover some project costs; and promote community water quality, and (iv) improve project implementation governance.

### Financing Modality of STWSSSP I

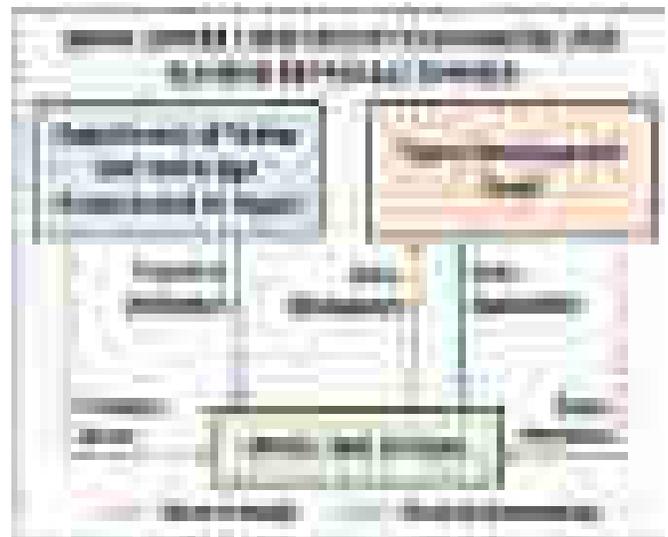
Under Small Water Supply & Sanitation Sector Projects (STWSSSP I), Asian Development Bank invested \$32.1

million; Government of Nepal, \$12.0 million; local government and water users contributed \$6.9 million. About 50% of project cost goes to Small Towns through Department of Water Supply and Sanitation (DWSS) as grant and 25-45% goes to WUSCs as loan at interest rate of 3-5%. The rest 5% of project cost comes as direct upfront cash contribution made by users. About 30% of total project cost was recovered under this model of financing water supply to towns.<sup>1</sup>

### Financing Modality of STWSSSP II

In the Small Water Supply & Sanitation Sector Projects (STWSSSP II), GoN provides 50% of total project cost as grant and the remaining 50% project cost is shared by users in which, 35-45% comes from TDF as loan and remaining 5% to 15% is contributed by users themselves. After the successful implementation of STWSSP I and STWSSP II, the Third Small Town Water Supply & Sanitation Sector Project (STWSSSP-III) has been started.

Under the STWSSSP-II, as per the subsidiary loan agreement held with TDF, GoN has allocated \$ 17 million loan for financing through TDF. TDF's loan equivalent to 25-45% of project costs are planned to recover in down to 25 years including 5 years grace period.



Source: USAID, 2017, Nepal Activity Concept Note

<sup>1</sup> USAID, 2017, Nepal Activity Concept Note



**Picture 7:** Overhead water tank constructed under Mirchaiya Small Town Water Supply and Sanitation Sector Project financed by TDF

TDF has appraised and approved loans equivalent to NPR 2,041.34 million for all 26 projects and disbursed NPR 1,964.22 million. All projects will be completed by FY 2017/18 (2074/75).

### Financing Modality of STWSSSP III

Under the STWSSSP-III, as per the subsidiary loan agreement held with TDF, GoN has allocated \$ 18 million loan for financing through TDF. STWSSSP III agreement between ADB, GoN and TDF was signed on 25 November 2014. The total fund allocated in this project is SDR 38.9 Million out of which TDF will get US\$ 18 Million as a soft loan at an interest rate of 1.5% and make investment at 5% in the selected Water Supply Projects

TDF's loan financing portion is 30%, 25%, 45% and 25% in STWSSSP I, STWSSSP I – (Rehab.), STWSSSP II and STWSSSP III sub projects respectively.

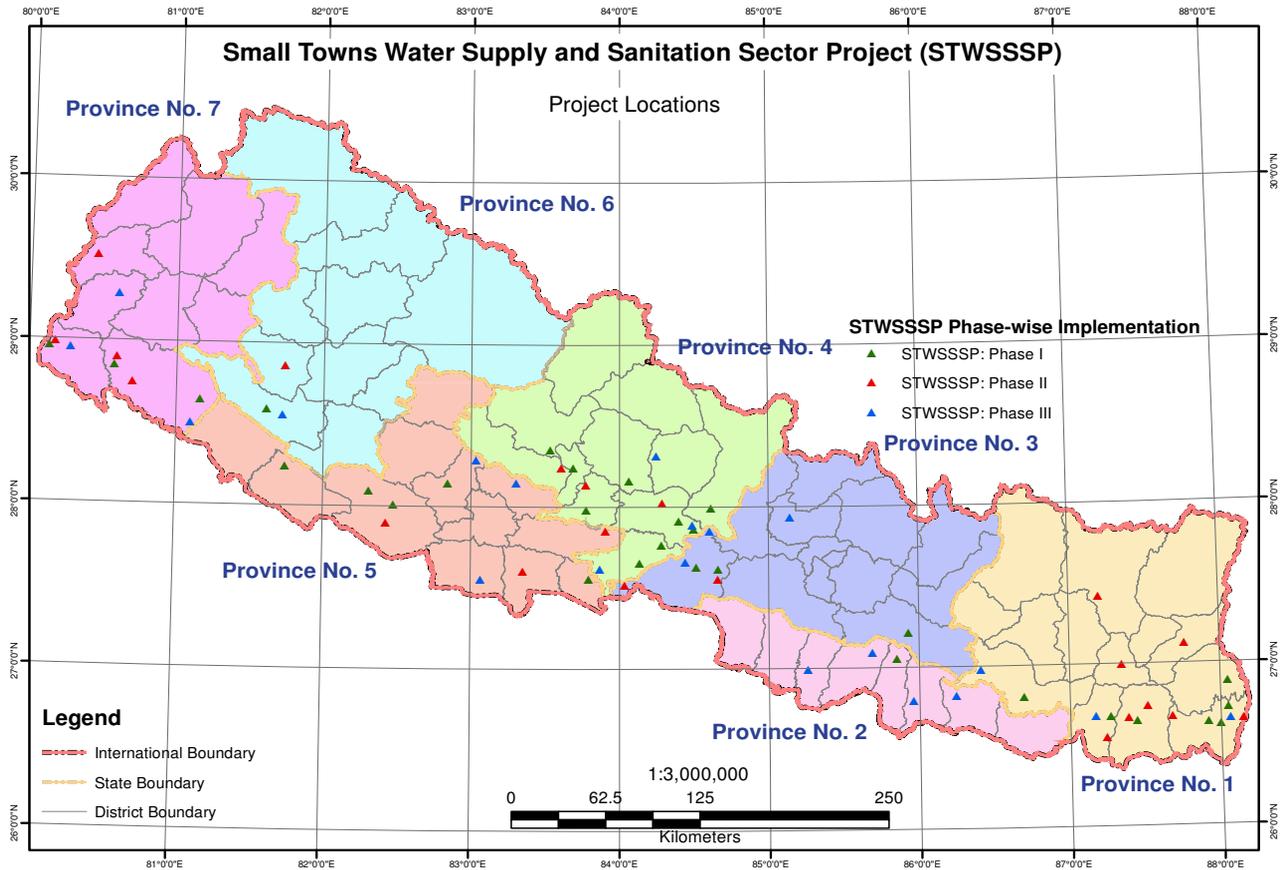
### Status

Under the STWSSSP-II, as per the subsidiary loan agreement held with TDF, GoN has allocated \$ 17 million loan for financing through TDF. TDF appraised and approved loans equivalent to NPR 2041.34 million for all 21 projects.

**Outputs of STWSSSP III:** The Third Small Towns Water Supply and Sanitation Sector Project is designed for key outcomes namely a) the improved the water supply service infrastructure and b) strengthened sector policy, regulatory and institutional capacity and service

**Table 3: Project Financing Modality**

S. No.	Program	No. of Towns	Start Date	End Date	Total Project Cost	Financing modality (%)			Remarks
						GoN	TDF loan	User	
1	STWSSSP-I	29	2000	2008	\$51 million	50	30	20	Completed
2	STWSSSP-I (Rehab.)	24	2015	2018	\$13 million	70	25	5	On going
3	STWSSSP-II	21	2009	2017	\$71.70 million	50	35-45	5-15	On going
4	STWSSSP-III	20	2014	2020	\$110 million	70	25	5	On going



Map 2: Map showing project locations of TDF financed Small Towns Water Supply Projects under STWSSSP I, II and III

delivery. The loan has been effective from 25 November 2014. Total financing is SDR 38.921 Million and in which GON will finance the USD 18 million through the TDF to the projects.

Under this project, all projects will in completed by FY 2017/18. The expected outcome of the Project is improved, affordable, and sustainable water supply and sanitation services, which are governed and managed by locally accountable representative bodies. TDF is focusing on building the institutional capacity and sustainable operation of the facilities.

TDF appraised and signed loan agreement for the 20 projects and also awarded the contract, which are in implementation stage. By the reporting time, TDF has approved NPR 1507.59 Million and disbursed NPR 737.21 Million out of total agreed amount to 20 towns.

### Outputs of STWSSSP I, II, III

**STWSSSP-I:** This project had set target to provide high standard of water supply services to about 240,000 people in about 29 small towns. Sanitation services-such

as on-site sanitation (private latrines), public toilets, waste water management facilities, and storm water drainage, were provided in the same towns through an integrated approach. About 270,000 people have access to improved sanitation facilities. These improvements in health and hygiene education programs have brought significant health benefits in terms of sharp reduction in the occurrence of waterborne diseases. Additionally, women and children will not have to waste much longer time just to go and get water. The saved time could be used in productive activities.

**STWSSSP-I: Rehabilitation Program:** Under Small Town Water Supply & Sanitation Sector Project (STWSSSP-I) Rehabilitation, out of the 24 projects, 18 projects have been rehabilitated and remaining projects are targeted to complete by the end of this Fiscal Year, 2074/75 (2017/18). TDF has approved loan NPR 391.7 Million and disbursed NRS 288.14 Million by January 2017. STWSSSP-I Rehabilitation sub-projects, 14 projects were awarded and remaining projects were targeted to award within this FY 2016/17.



**Picture 8:** Overhead Tank and office building of Birendranagar-Chitwan Small Town Water Supply and Sanitation Sector Project under construction being financed by TDF under STWSSSP III

## Tariff Setting in STWSSSP Sub Projects

The project's financial sustainability model assumes an appropriate tariff level to recover at least necessary capital and O&M costs. Awareness raising about tariff payment and use of safe water were started early in the project preparation stage for water users and WUSC members. Similarly realistic assessment was made regarding the amount of water to be used and structure of tariff to be charged was finalized in close consultation with the users. Tariffs bands are based on volumetric use of water on progressive basis. Households are minimally charged so as to cover the basic operational and maintenance cost only.

## Improved access to water supply

The improvements in health and hygiene education programs has brought significant health benefits in terms of reduction in the occurrence of waterborne diseases. Additionally, women and children will not have to waste much longer time just to go and get water. The

saved time could be used in productive activities.

## Improved capacity of WUSCs

The project also provided technical training to members and staff of the water users and sanitation committees to develop their capacity for the operation and maintenance of town projects regarding meter reading, meter maintenance, plumbing, testing water quality, and operating pumps. Committee members also received training on financial management, which included water tariff planning, billing, and collection, as well as basic accounting. A technical support center was also established in each of the five regional offices of the Department of Water Supply and Sewerage to promote community-based monitoring of water quality and meter calibration.

## Leading Towards Operational Sustainability

WUSCs are already leading towards operational sustainability mainly due to the continuous support



## "Nepal's Small Towns Water Supply and Sanitation: Development Impacts of ADB's Support"

- *Delivering water and sanitation to 1.24 million people in 69 urban centers all across Nepal*
- *Building the competence of local communities by involving them fully in planning, implementation, monitoring, and operating the water supply and sanitation systems*
- *Successfully using a demand-driven and bottom-up approach to delivering water supply and sanitation services*
- *Achieving cost recovery with communities by sharing capital as well as operation and maintenance (O&M) costs*
- *Strengthening and streamlining Nepal's policies and institutional framework for water and sanitation service delivery*
- *Empowering communities and building social capital through the inclusive practice of requiring Water User and Sanitation Committees (WUSCs) to be composed of at least 33% women representatives, and electing at least one woman to key posts*
- *Successfully demonstrating synergetic effects from multi-stakeholder collaboration and partnership in urban service delivery*
- *Piloting fecal sludge management and introducing fecal sludge management regulations, policies, and guidelines for the first time in Nepal*
- *Institutionalizing a 20-year management agreement with WUSCs for systems O&M with performance targets*
- *Enabling WUSCs to achieve the following key performance milestones:*
  - o *provide serviced communities with a daily average of 13 hours water supply, with some already able to provide continuous water supply 24/7*
  - o *recover O&M, debt service, and expansion costs*
  - o *average nonrevenue water at 21.6% (some lower than 5%)*
  - o *average tariff collection efficiency at over 80%*
  - o *affordable tariff at an average of NRs15.40 (about \$0.10) per cubic meter, with a lifeline block tariff at a subsidized rate*
  - o *metered connections at 98% on average*
  - o *efficient services using technology such as computerized billing and collection, supervisory control and data acquisition, mobile-based meter reading, and online tariff payment"*

*Source: Neeta Pokhrel and Sanjaya Adhikary, ADB, Tapping the Unreached, Nepal Small Towns Water Supply and Sanitation Sector Projects: A Sustainable Model of Service Delivery, ADB, July 2017.*

from TDF in a) tariff setting, b) accounts keeping system, c) tax billing system d) conducting hands on training, and e) helping WUSCs in resolving critical management issues. Nepal has made significant progress in providing access of people to clean drinking water and sanitation with various levels of improvement reported in terms of water, sanitation and hygiene -WASH coverage.

### Outcome Evaluated

The STWSSSP – I was assessed as likely sustainable in the meantime it has recommend to continue follow-up support, strengthen financial management and post-

construction support to WUSCs<sup>2</sup>.

Improved water supply access was provided for 593,000 beneficiaries, representing 76% of houses connected in the project service areas. Additional water supply outputs were 2,115 institutional taps provided for hospitals, schools, and government offices. For sanitation, 10,022 on premise latrines were provided for ultra-poor households, and 54 public latrines were built.<sup>27</sup> Health and hygiene education reached 3,152

<sup>2</sup> ADB, Nepal: Small Towns Water Supply and Sanitation Sector Project 2010,



users, half of whom were women.

The projects expected impact was enhanced human development and reduced poverty through improved and sustainable WSS systems in small towns. This was to be achieved by improving health conditions, increasing the number of children attending the town's schools, and increasing the productive time available to residents who previously would have had to travel to fetch clean water. The project framework in the report and recommendation of the President provided no quantitative indicators or targets, however.

Water users assumed ownership and expressed their commitment and willingness to pay higher tariffs for a reliable water supply system. The average efficiency of water tariff collection is 95%. Although WUSCs are aware that adequate tariffs need to be collected to cover O&M costs and debt servicing, tariffs currently adopted in most towns are still below what the TDF recommends. Most of the town projects need to increase their water tariffs and complete water connections as designed to improve their debt-serving capacity. There have been cases where water supply systems were expanded beyond their technical capacity, apparently in response

According to ADB evaluation team, small town's utility projects are rated as an *efficient* in achieving its outcomes and outputs, based on financial and analyses using the same methodology as at appraisal. The combined economic internal rate of return (EIRR) of the eight sample town projects is estimated at 11.7%, and their financial internal rate of return (FIRR) is estimated at 5.2%.<sup>21</sup> this indicates that the project is justified from financial and economic perspectives. If the measured benefits were included the community, institutional development and empowerment, the project would have a substantially higher EIRR than at appraisal. The financial analysis concluded that the proposed water at appraisal had yet to be fully applied in most the town projects. The economic analysis concluded that the economic benefits of the small town projects outweighed the

Associated economic costs. The weighted average EIRR for the sample subprojects is almost equal to the assumed economic cost of capital of 12%<sup>3</sup>.

## Way Forward

The key points of way forward are as following:

- Initiate co-financing model to be financed by GoN grant (70%) and TDF loan (25%) to achieve targets of SDGs.
- Transfer in TDF equity from the remaining recoverable loan of STWSSSP-I and II to Scale up revolving fund (RF) of TDF.
- ABD- additional financing for new 15 Small Towns (\$116 million ADB and \$ 40 million GoN) shall be used based on past experiences. There will be 19 Projects in 15 Small towns (15 water Supply and 4 storm water drainage).
- Support to WUSC in the areas of Business Plan development as blue print, Institutional capacity building, standardization of Policy and regulations for the sustainability of projects.
- Support WUSCs in proper use of ICT in account keeping, billing, and Smart Water Grid Management in coming days.
- Initiate co-financing (70 % GoN grant, 5-10% users' matching and 20-25% TDF's loan form its equity).

## Way Forward for New Projects

- Initiate co-financing model to be financed by GoN grant (70%) and TDF loan (25%) to achieve targets of SDGs.
- Transfer in TDF equity from the remaining recoverable loan of STWSSSP-I and II to Scale up revolving fund (RF) of TDF.
- ABD- additional financing for new 15 Small Towns (\$116 million ADB and \$ 40 million GoN) shall be used based on past experiences. There will be 19 Projects in 15 Small towns (15 water Supply and 4 storm water drainage).
- Support to WUSC in the areas of Business Plan development as blue print, Institutional capacity building, standardization of Policy and regulations for the sustainability of projects.





## Urban Water Supply Programme (in Pipeline)

### Project Concept

Future Urban Water Supply Program has been discussed with ADB regarding rational, scope and components, indicative financing plan, implementation and financial arrangements with MOF, MWSS and DWSS during the ADB mission of January 2018 and a draft concept paper has been prepared accordingly.

### Proposed project scope and components

The project will include the following outputs namely

- (i) improved water supply and sanitation infrastructure;
- (ii) strengthened sector policy, institutional and project preparation capacity, and service delivery; and
- (iii) piloting climate-resilient water supply service delivery.

### Financing Modality (Plan)

The proposed project is estimated to cost \$156 million. The project is included in ADB's Country Operations Business Plan (2018-2020) with a total loan amount of \$100 million from ADB's concessional ordinary capital resources. Counterpart funds from the government are estimated to be \$40 million to cover taxes and duties, land acquisition and resettlement, and counterpart staff. Contributions from beneficiaries are estimated to be \$5 million. Co-financing is envisaged through a potential investment grant by the Urban Climate Change Resilience Trust

Fund (UCCRTF), under ADB's Urban Financing Facility.

For the proposed project TDF will continue to conduct the following key tasks:

- (i) financial appraisal of the subprojects,
- (ii) signing subproject financing agreements with the water users' association (WUAs) or local bodies,
- (iii) on-lending the loan portion to the Water User Associations or local bodies,
- (iv) monitoring tariffs,
- (v) training WUAs in financial management, and
- (vi) collecting repayments.

In continuation of the ongoing strengthening of institutional capacity development and restructuring measures in TDF supported by the third small town project, the proposed project will consider further support to TDF for capacity building of staff.





## Secondary Towns Integrated Urban Environment Improvement Programme (STIUEIP)

### Project Concept

STIUEIP, is an urban environmental improvement project being implemented by loan assistance from the Asian Development Bank (ADB). The basic concept of STIUEIP is implementing basic utility infrastructure of the municipality to improve quality of life of people land Environment improvement through drainage, sewer, waste water treatment, integrated solid waste management with affordable and sustainable operation and maintenance. The Ministry of Urban Development is the Executing Agency (EA), working through its Department of Urban Development and Building Construction (DUDBC), which has established a project coordination office (PCO) for the Project headed by project director. Biratnagar, Birgunj, Butwal and Kavre Valley is the Implementing Agency (IA) for the Project. Project Implementation Unit (PIU) headed by Project Manager is established under the umbrella of the municipalities. Town Development fund (TDF) is one of the key stakeholders to provide loan to Municipality received from GoN and pay back to GoN after recovery from Municipality.

### Project Objectives

The main objective of STIUEIP is to improve the quality of life in key regional centers in Nepal and help to achieve higher and more socially inclusive economic growth in those centers through effective, efficient, and reliable delivery of improved and affordable municipal services by accountable project municipalities. The Project is implementing urban environmental improvement, on an integrated basis, in the areas including sewerage and drainage, solid waste, and urban roads and lanes in Biratnagar, Birgunj and Butwal municipalities. In addition, a water supply development sub-project in Kavre Valley is being implemented. Community development Programme including awareness-raising on health and hygiene and 3R (reduce, reuse, and recycle), and investment in small-scale community facilities will be carried out. The Project also strengthens capacity of municipalities and the central Government for project management and operation.



*Picture 9: Waste Water Treatment Plant stabilizing pond earthwork excavation works in progress under Drainage Sewerage Waste Water Treatment and Road Lane Improvement Project, STIUEIP at Biratnagar being financed by TDF*

## Financing Modality

The total fund allocated in this project is US \$106 Million -( TDF -received US\$ 12.1 Million as a soft loan at an interest rate of 2.5% and make investment at 5% in the selected municipal projects. The project development under STIUEIP is the responsibility of the PIU of the concerned municipalities under the PCO established in DUDBC.

Different financing modality has been adopted according to the scope of project and affordability of people and municipality for sustainable infrastructure investment, operation and maintenance. Accordingly, 81%-84% grant has been provided by GoN,8%-11% loan from TDF at the interest rate of 5% with grace period of 5 years and 15 years of loan payback period. Where remaining 8% will be contribution from municipality.

## Project Status: Ongoing

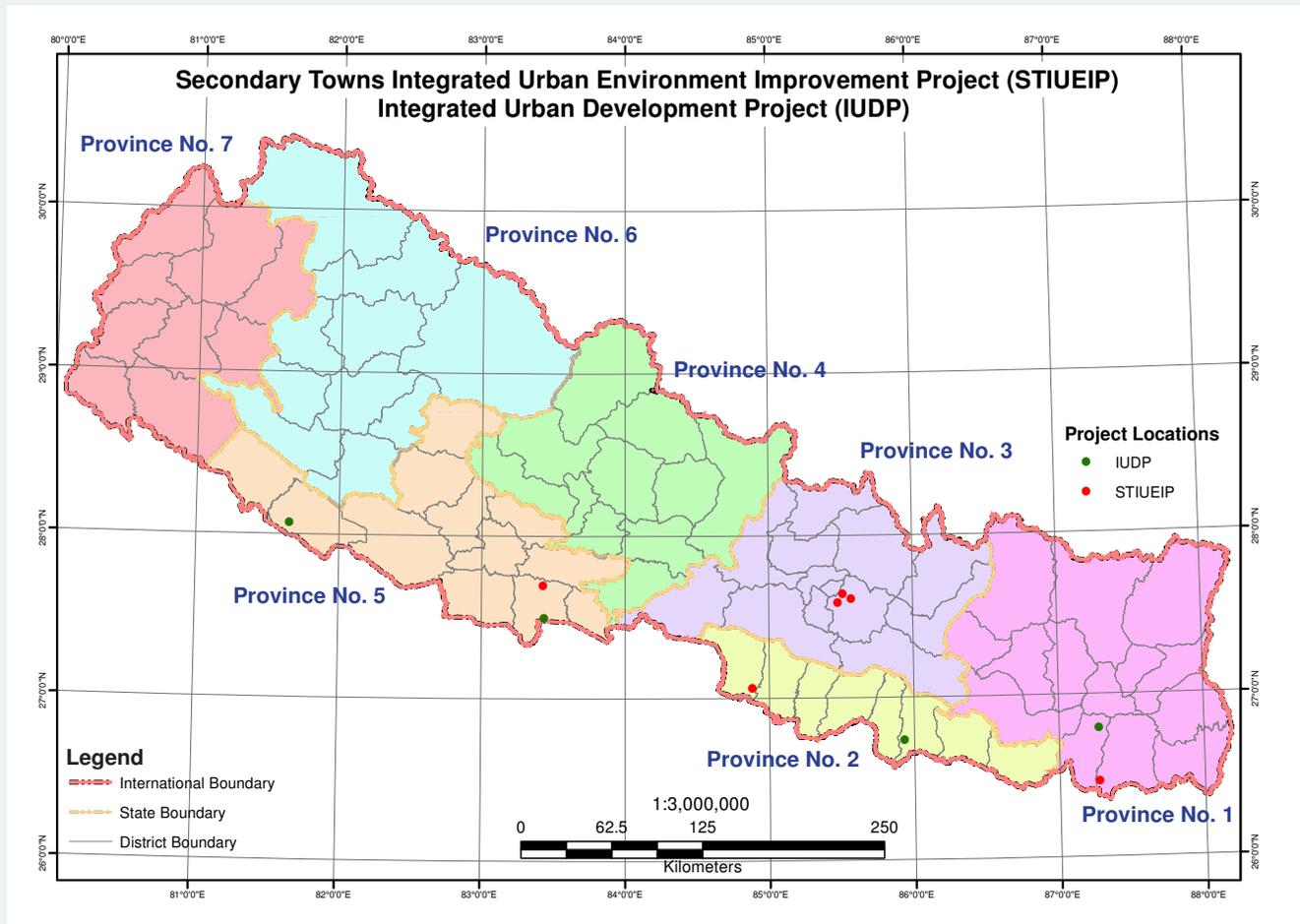
TDF has approved NPR 970.47 million for 8 different STIUEIP projects and has disbursed NPR 792.17 Million

out of total approved amount. Most of the projects are under completion phase though some projects like integrated solid waste management are lagging far behind from stipulated time due to outstanding social issues coming from the community of project site. Besides, some of the sub-projects like water supply and drainage of Kavre valley and Biratnagar have incurred significant cost variations due to huge variation in construction items.

## Way Forward

For sustainable operation and maintenance of the project the technical knowledge transfer of the equipment and methodology to the municipal staff will be initiated. There is need of training and orientation Programme to people and municipal staff for effective use of drainage solid waste management.





Map 3: Map showing project locations of TDF financed Projects under STIUEIP and IUDP

Picture 10: Waste Water Treatment Plant stabilizing pond construction works in progress under Drainage Sewerage Waste Water Treatment and Road Lane Improvement Project, STIUEIP at Biratnagar being financed by TDF



## Integrated Urban Development Project (IUDP)

### Project Concept

IUDP is being implemented by loan assistance from the Asian Development Bank (ADB) in the areas of Water Supply, Solid Waste Management Improvement, Storm Water Drainage and Lane Road Improvement works in Nepalgunj, Siddharthanagar, Dharan and Janakpur municipalities.

### Project Objectives

The main objective of IUDP is to establish a functional system in project municipalities for improving and delivering affordable municipal infrastructure and services with expanded outreach and inclusiveness,

by accountable project municipalities. Nepalgunj, Siddharthanagar and Janakpur are implementing solid waste management, storm water drainage and road improvement sub-projects where as Dharan is implementing water supply sub-project.

### Financing Modality

MoF and ADB signed financial agreement on May 8, 2012 to initiate IUDP in Nepalgunj, Siddharthanagar, Janakpur, and Dharan municipalities of Nepal for a total amount of SDR 28,435,000 as loan and USD 12,000,000 as grant to GoN. TDF signed subsidiary loan agreement with MoF to mobilize the loan component of about SDR 8,594,000.

*Picture 11: Surface Drainage construction in progress works in progress under Drainage and Road Lane Improvement Project, IUDP at Nepalgunj being financed by TDF*



Different financing modality has been adopted according to the scope of project and affordability of people and municipality for sustainable infrastructure investment. Accordingly, for the projects like solid waste, drainage, urban road and lanes; 80% grant has been provided by GoN, 15% loan from TDF at the interest rate of 5% with grace period of 5 years and 15 years of loan payback period. Where remaining 5% will be contribution from municipality. Similarly for water supply projects, 50% grant has been provided by GoN, 35% loan from TDF and remaining 15% contribution by municipalities.

### Project Status

TDF, has approved a loan of NPR 1014.84 million and disbursed NPR 746.6 Million. Most of the projects are nearing to completion phase except sub-projects in Dharan and Janakpur. Shiddharthanagar and Nepalgunjare implementing Regional Urban Development Programme (RUDP) for road improvement and drainage extension which were left out in IUDP sub-projects earlier owing to budget constrain.

### Way Forward

Under IUDP sub projects, a Comprehensive Financial Improvement Plan (CFMIP) for each participating municipalities has been prepared and being implemented. However, stringent monitoring from project management office and TDF is needed on implementation of CFMIP to ensure that the projects are implemented in an operationally sustainable way.



**Picture 12:** Section of completed black topped road under Drainage and Road Lane Improvement Project, IUDP at Siddharthanagar financed by TDF

## Urban Governance and Development Program: Emerging Towns Project (UGDP:ETP)

### Project Concept

The Urban Governance and Development Programme in Emerging Towns Projects (UGDP:ETP) was introduced as an important first step of a potentially longer term programmatic engagement by the World Bank (WB) to support Nepal in its decentralization and urbanization transitions in 6 participating municipalities namely, Mechinagar, Dhankuta, Itahari, Tansen, Lekhnath and Baglung.

The project was focused to improve planning, delivery and sustainable provision of basic services and priority infrastructure, while reforming systems and procedures and capacitating personnel of key central agencies associated with urban sector, including TDF.

Project mandate covered the key areas of public administration of sub-national government, Municipal Institutional Development and Urban Infrastructure and Service Delivery of 6 participating municipalities. Total project cost was US\$ 12.9 million whereas actual disbursement was made equivalent to US\$ 11.66 million only.

### Project Objectives

The project development objective was to improve delivery and sustainable provision of basic services and priority infrastructure in the participating municipalities.

However, in the later stage the objective was revised as 'to improve the capacity of the participating municipalities to plan, implement and fund urban development activities', focusing more on institutional development of participating municipalities.

### Project Components

The Project consisted of three components.

#### Component 1: Strengthening Municipal Planning Capacity for Urban Development

In line with the revised PDO, the component name was changed from "Service Delivery Improvement" to "Strengthening Municipal Planning Capacity for Urban Development". The component aimed to provide municipal grants to the participating municipalities to finance eligible activities with the objective of improving



**Picture 13:** Kheti Khola Bridge connecting access road at Itahari constructed under UGDP:ETP financed by TDF

the capacity of the municipalities to effectively plan and carry out urban development activities.

### **Component 2: Capacity Building for Municipal Infrastructure Development**

The scope of component activities was substantially reduced in line with the borrowing and implementation capacity of the participating municipalities from original allocation of \$23.5 million to \$5.1 million. The component name was changed from “Socio-economic Infrastructure Development” to “Capacity Building for Municipal Infrastructure Development”. The component aimed to provide funds to the participating municipalities to finance sub-projects, including engineering and advisory consulting services, as well as associated social and environmental management activities, with the objective of improving the capacity of the participating municipalities to plan and implement municipal infrastructure investments.

The Component 3 was led by TDF with dedicated full-time Component Manager.

### **Component 3: Institutional Development**

This component was strengthened in line with the change in the PDO to focus on institutional capacity

building for the participating municipalities and Project Coordination Office (PCO), and to replace GIZ-funded institutional development support that was phased out. The component was designed to support the institutional strengthening of, and provision of project management support to, the participating municipalities, MoUD, MoFALD, DUDBC, TDF, and UDTC.

### **Financing Modality**

GoN received funding from the World Bank total amounting to US\$ 12.9 million in the form of Credit and Grant (55:45 ratio).

The Component 2 was designed to provide a blend of grants and loans for high-value social and economic infrastructure sub-projects, which were selected, structured, and implemented by the participating municipalities. Sub-projects were clubbed into three broad categories, namely social infrastructure, urban or utility infrastructure, and revenue generating or commercial infrastructure. Social infrastructure received the highest share of grants (up to 80%), followed by urban/utility infrastructure (up to 60%) and revenue generating or commercial infrastructure (up to 30%).

The project was approved on March 25, 2013 (Grant Signing Date) with effective date being 21 June 2013. The project was closed on January 31, 2017.

## Project Beneficiaries

Based on project appraisal data, 280,000 citizens of six participating municipalities benefited directly from the UGDP- ETP. The Project also expected to benefit the participating municipalities, including municipal councils and relevant departments, which received the municipal grants, municipal infrastructure investments, and technical assistance from the Project. Key institutions at the central level, namely the MoUD, the MoFALD, the DUDBC, the TDF, and the UDTC were also important beneficiaries of the Project.

Under the ID component, TDF underwent major transformation by implementation of its Business Restructuring Action Plan (BRAP), approved by the GoN. Institutional development activities were carried out in line with the BRAP and TDF's 4-year Business Plan (2014-2016), ensuring sustainability of institutional changes brought by UGDP- ETP. Based on BRAP achievements, TDF has further planned BRAP II, under its new Business Plan (2016/17- 2019/20) to further transform TDF from business as usual to strong financing intermediary.

## Project Output

All six participating municipalities prepared and updated O&M Plans and Investment Plans (IPs).

Out of 16 construction contracts, 15 were fully completed except one was dropped due to land issue in Dhakuta Hile Bau Park. Percentage of funds for municipal sub-projects disbursed by the closing date was 86%.

Overall own source revenues (OSR) of the six participating municipalities increased by 161% during the four year project implementation period, which is an encouraging output achieved relatively in shorter time frame.

The total number of beneficiaries exceeded by 32,224. The amazing fact was that percentage of female beneficiaries and disadvantaged groups also exceeded targets.

TDF restructured due loans in FY 2016 and the collection ratio increased to 90% thereafter.

TDF prepared standard lending policies and procedures



**Picture 14:** Amar Narayan Temple Conservation and Development in Tansen under UGDP:ETP financed by TDF



*Picture 15: Improvement of Existing Access Road in Tansen constructed under UGDP:ETP financed by TDF*

in Year 2 under this Programme and applied them for all ETP project activities.

Qualitative evidence of economic benefits include in urban road and transportation areas too. Five road sub-projects were upgraded up to 30.4 km of existing municipal roads, and two bridges were constructed under one sub-project. About 79,000 municipal residents benefited directly from these transportation sub-projects. Vehicle operating cost savings, time savings, and savings in health expenditure are some of the main economic benefits for the population served. Tourism, culture, recreational and local market development were unmeasured outputs of the program. Seven sub-projects (Temple conservation - 1, Gate beautification - 1, Multi-purpose building -1, and Parks improvement – 4) were implemented to promote internal tourism and recreational activities. These sub-projects generated employment and helped to increase municipal revenues through service charges on the users of these facilities. As an example, the Lekhnath park improvement sub-project resulted in doubling the number of tourists. It also significantly improved lake water quality by preventing wastes on the lake banks from being washed

down to the lake. Improvement of the local market contributed to increase in business and trade.

### **Borrowing Capacity Analysis**

TDF carried out a borrowing capacity assessment of the municipalities at appraisal to ensure their financial capacity for operations and maintenance and loan repayment. All sub-projects were selected within the financial capacity of the participating municipalities, i.e., debt service coverage ratio as less than 30% of total revenue and minimum 25% surplus amount of municipality (Recurrent revenue - Recurrent expenditure) as ceiling for debt service.

**Project Status:** This project is satisfactorily completed with above results.

### **Way Forward**

There was a request from the GoN to develop a follow-on lending operation to continue support for integrated infrastructure development and municipal capacity building, aligned with the ongoing transition to fiscal federalism. The GoN is also keen to structure this lending

## Town Development Fund

through a Program-for-Results (PforR) instrument (or IPF with disbursement-linked indicators).

As per approved programme of UGDP- ETP for the fiscal year 2015/016, the consultants were engaged for preparation Detail Project Report (DPR) of 16 municipalities (Koshi Haraicha, Birtamod, Damak, Urlabari, Gaur, Jaleswor, Dhanushadham, Rajbiraj, Triyoga, Byas, Putalibazar, Pokhara, Shuklagandaki, Tilottama, Ramgram and Jiri). The municipalities have been selected on the basis of objectively verifiable criteria. The primary objective of the preparation of DPR is to make investment for the construction of infrastructures projects in respective municipalities. It is expected that by mid-2018, three DPRs of infrastructure projects from each municipality will be prepared for project readiness for the 2nd phase of UGDP:ETP.

Based on the past experiences, these projected should be financed using proper blending of grant from GoN and loan from TDF for sustainability. GoN should finance the

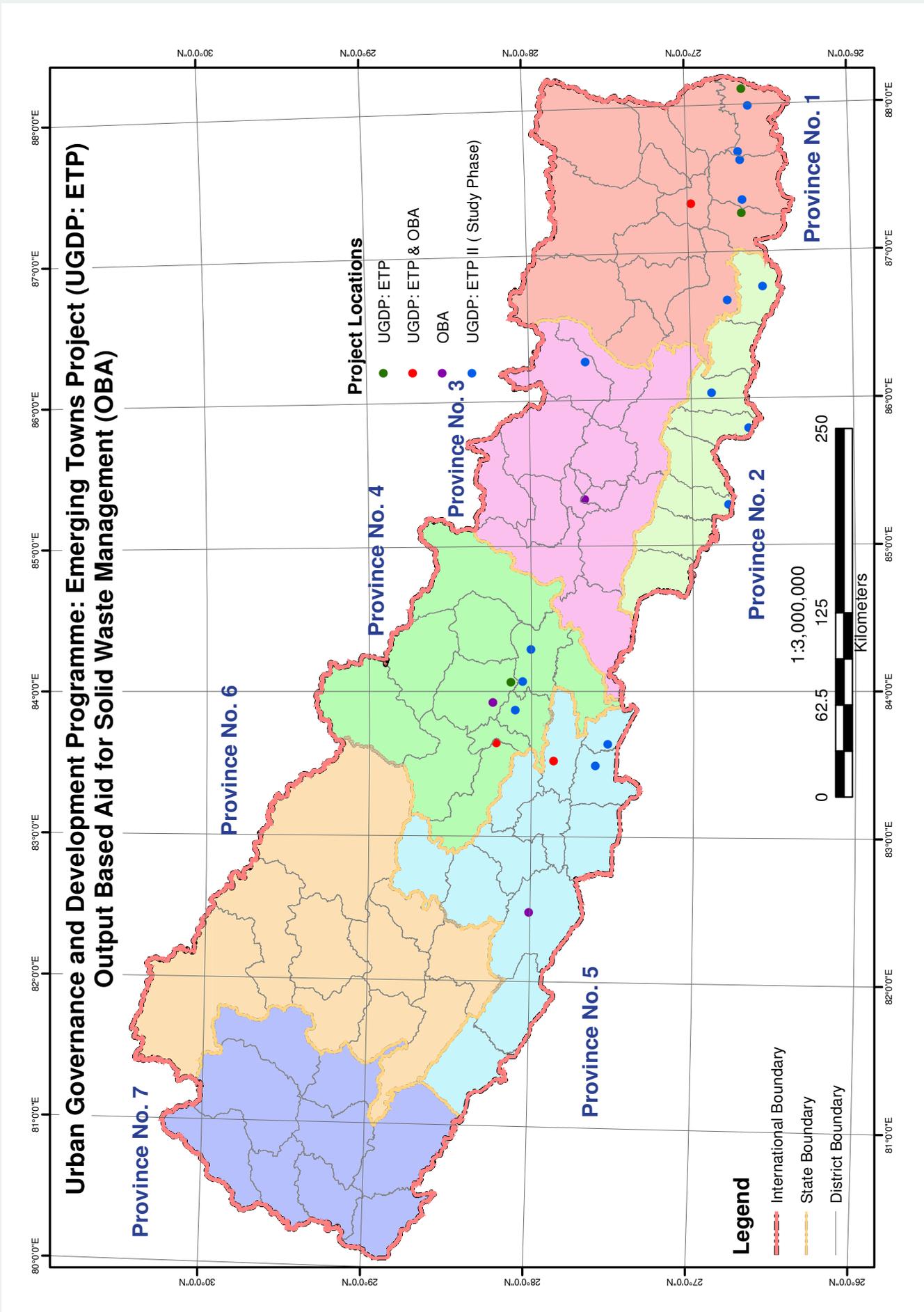


*Picture 16: Multi-purpose Building at Birendra Park in Tansen constructed under UGDP:ETP financed by TDF*

social projects with grant component and commercial projects with loan component of the project.



*Picture 17: Beautification of Mechinagar Gate in Mechinagar constructed under UGDP:ETP financed by TDF*



Map 4: Map showing project locations of TDF financed Projects under UGDP:ETP and OBA



## Output Based Aid for Solid Waste Management (OBA)

### Project Concept

The World Bank -Global Partnership for Output Based Aid (GPOBA) assisted project, the 'Output-Based Aid for Municipal Solid Waste Management in Nepal' (the OBA project).

The main concept of the OBA project was to improve access to high quality and financially sustainable SWM services in participating municipalities and the subsidy to municipalities were disbursed to improve /incentivize the operation of solid waste management services.

TDF together with the Solid Waste Management Technical Support Centre (SWMTSC) were the central government counterparts under the OBA project as executing agencies.

### Project Objectives

The main objective of this project was to incentivize and enable gradual development of beneficiary charging to improve the financial viability and enable the expansion of Solid Waste Management (SWM) services in five participating municipalities (Tansen, Lalitpur, Ghorahi, Dhankuta and Lekhnath-Pokhara).

### Project Components

The OBA Project consisted has following 3 components:

#### Component I :

Service Delivery and Subsidy for each participating municipality over a four year period to cover the gap between the costs of delivering solid SWM services and the beneficiary revenues collected through SWM fees, provided that the services meet verified minimum performance criteria;

#### Component II:

Implementation support to municipalities is critical technical assistance to participating municipalities to help them in successfully implementing the project; and

#### Component III :

Project management, monitoring, evaluation and communications and verification of outputs and performance, baseline and beneficiary assessments, studies and other M&E activities.

### Financing Modality

The GoN received funding from the GPOBA; a trust fund administered by the World Bank and GoN and WB signed



grant agreement on 25 March 2013 for the amount of US\$ 4,288,381.

The SWMTSC and the TDF were the two key implementing partners and provided necessary technical and project management support to the participating municipalities during the project implementation phase.

**Project Approval Date:** March 25, 2013 (Grant Signing Date) June 21, 2013 (Effectiveness Date)

**Project Closing Date:** 30 June 2017

### Project Beneficiaries

The OBA Project piloted in five participating municipalities covering almost 800 thousands of beneficiaries and achieved strengthened capacity of municipalities with following development impact:

The impact of improved sanitation is significant, including:

- Health benefits from reduced exposure to environmental risks posed by unsanitary human waste disposal.
- Economic benefits from reduction of medical expenses to treat water-borne diseases, increased productivity and capacity to work due to fewer days off from work related to water-borne disease, especially for mothers of children under five who are prone to diarrhea.

### Expected Output

OBA Project disbursed subsidy to participating municipalities based on their capacity, that helped to bridge the financial gap and willingness-to-pay barriers which was preventing municipalities from achieving greater levels of cost recovery in solid waste management.

**Project Status:** Completed

### Way Forward

Urban population is increasing rapidly and reached to over 60% of total population after the numbers of municipalities reached to 293 from 191 in September 2017. Cities are generating approximately 2,000 Tons



*Picture 18: Beautiful garden established over the landfill site in Salleri forest area in Dhankuta Municipality constructed under OBA Project financed by TDF*

of waste per day. Growing urban activities, population influx into urban centers and changing consumption pattern have significantly increased the concerns of solid waste management situation in Nepal.

To timely address this concern, local level government (as per the new constitution and SWM Act 2011), and the municipalities must establish a financially sustainable system for effective SWM. It is realized that establishment of OBA modality is important for technical strength as well as financial sustainability, and will be successful in the municipalities. Hence, replication of OBA modality for SWM with the concept of 'Zero Waste' in other municipalities of Nepal is very feasible and will yield long term benefits in SWM sector.

In nutshell, the OBA intervention in the 5 participating municipalities had ensured that the municipalities are leading towards "Operational Sustainability" by enhancing the service delivery quality in solid waste management and collecting the revenue from households. Hence, the OBA Programme should be scaled up in other municipalities as well.





## Kathmandu Sustainable Urban Transport Project (KSUTP)

### Project Concept

TDF has received grant from Asian Development Bank (ADB) and Global Environment Facility (GEF) under Kathmandu Sustainable Urban Transport Project (KSUTP) for financing implementation of the Public Transport in S5 Pilot Route (Gongabu to Sinamangal) and establishment of Sustainable Urban Transport Fund within TDF.

TDF shall use the repayment from the new Bus Operating Company to establish Revolving Fund that may be used to finance subsequent public transport sector, which possess huge business potential for TDF in days to come. Hence, this pilot case is considered as a good business opportunity which will pave the way for new business portfolio for TDF in urban public transport sector.

### Project Area

Kathmandu Valley Transport System improvement and urban public transport financing in 2 Pilot Route (S3 & S5).

**Total Project Cost:** US\$ 3.8 million (GEF & ADB Grant)

### Project Objectives

The main objective of KSUTP is to improve the overall quality of urban life in Kathmandu Valley. The specific

objectives of the project are:

- With the aim of reducing use of private vehicle in future, KSUTP will investigate effective measures to significantly enhance the existing public transport services by providing more convenient, comfortable, reliable and safe public transport system.
- The project will take effective measures for enhancement of road network operation by improving traffic management and traffic safety in the valley.
- The project also aims to declare pedestrianisation zones (car free zones) in the Kathmandu City core area. A total of 8 km heritage pedestrian walkways and 15 km of sidewalks improvements are part of the pedestrianisation programs;
- Improving air quality monitoring and reduction in air pollution within the Kathmandu City is another objective of the project.
- However, TDF's involvement in KSUTP is only for financing Public Transport fleet with low emission or electric vehicle through set up of financial mechanism. Under the sub-sector Public Transport, one of the tasks was defined as "Development and implementation of two pilot bus routes using electric or low emission vehicles." Out of 2 pilot routes selected for implementation by KSUTP, only



S5 pilot route was found viable from operation and business plan prepared KSUTP / PMCBC.



**Picture 19:** 17 fleet mid-sized buses to run on S5 Pilot Route, Sinamangal-Gongabu, financed by TDF under KSUTP



**Picture 20:** S5 Pilot Route, Sinamangal-Gongabu, for Public Transport implementation under KSUTP

### Financing Modality

For development of a financing mechanism through TDF to promote Public Transport fleet renewal by introducing low emission vehicles under KSUTP, TDF will receive grant amount of US\$ 3.8 million (US\$ 2 million from GEF grant account and US\$1.8 million from ADB grant financing) to support the pilot routes implementation and establishment of Revolving Fund within TDF.

**Project Approval Date:** July 22, 2010 (26 Oct. 2010 Signing Date) Jan 05, 2011 (Effectiveness Date)

**Project Closing Date:** June 30, 2018 (Revised)

### Project Beneficiaries

As per the business plan, the total number of 61 private operators, comprising of 26 micro-bus 25 Safa Tempo, operating in the S5 Route, had established new operating company, M/s Digo Sarbajanik Yatayat (P) Ltd., 100% owned by private sector and subsequently, signed Service Level Contract with DoTM for the period of 12 years.

The project will have direct benefit to the local commuters of 15,027 per day and significant impact on improved urban environment due to promotion of low emission vehicles. Most importantly, it will help to abolish existing 'syndicate' in Public Transport, which is seen as bottleneck for improvement of Public Transport.

### Expected Output

The specific planned outputs of the projects are as following:

- In Kathmandu, public transport services and walkability are improved, favoring a modal shift from private vehicles and improving traffic conditions.
- Public transport is improved and upgraded, and Revolving Fund established within TDF for PT financing.

**Project Status:** Ongoing

### Way Forward

For up scaling the promotion of PT fleet with low emission or electric vehicles in other pilot routes through established revolving fund within TDF is major way forward of the project.

Identifying appropriate mode of mass transportations at the main corridors are important to cope up with the increasing population and urbanizations.





## Nepal Energy Efficiency Programme II (NEEP II)

### Project Concept

NEEP is being implemented to promote and realize energy efficiency in Nepal and is a bilateral technical cooperation between Government of Nepal (GON) and Federal Republic of Germany. The project is executed by Ministry of Energy with technical assistance provided by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), acting on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

TDF is one of the implementing partners to promote energy efficiency in public urban infrastructure under the component 1: Energy Efficiency Market

**Project Area (Lead):** Energy Efficiency Market (Technical Assistance)

**Total Project Cost:** up to Euro 4,000,000 (volume of German contribution)

### Project Objectives

The main objective of the programme is to improve the basic pre-requisites for the planning and the implementation of measures to increase the efficient use of energy in Nepal and to promote energy efficiency in public urban infrastructure asset financed by TDF. Awareness Rising and capacity building for selected target groups and intermediaries, including TDF.



**Picture 21:** Carrying out Investment Grade Energy Audit (IGEA) in Birtamod Small Town Water Scheme, pumping station examining the performance of water flow pump, financed by TDF under STWSSSP.



## Project Components

The NEEP II consisted of 3 key areas of interventions;

- I. Promote energy efficiency in industry and public infrastructure as a main agenda of Energy Efficiency Market
- II. Promote energy efficiency on Clean Cooking
- III. Improve the framework conditions for energy efficiency on policy level

## Financing Modality

The Nepali- German programme NEEP was implemented by the Ministry of Energy with technical assistance by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), acting on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ). Basically, this is technical cooperation project.

**Approval Date:** June 2014 (Effectiveness Date)

**Closing Date:** June 2017

## Project Beneficiaries

The improvement in the condition for planning and implementation of measures for efficient energy use for harnessing the untapped resource – energy efficiency was achieved to some extent. Individual households, municipalities, industries and commerce are expected to benefit from mitigating the energy crisis. Accordingly, NEEP contributed towards the global initiative of SE4All in achieving its objective - energy efficiency - through increased productivity of resources that fostered economic growth, improved energy security and reduced costs for all citizens.



*Picture 23: Conducting Dissemination Workshop on Energy Efficiency Intervention in TDF Financed Project in May 2017.*



*Picture 22: Carrying out Investment Grade Energy Audit (IGEA) in various TDF financed projects across the country.*

## Expected Output

TDF's technical capacity in the field of Energy Efficiency and raise municipalities awareness on Energy Efficiency concept will be upgraded.

**Project Status:** Completed

## Way Forward

Energy Efficiency is more of a practice in creating structures and using processes in sustainable development initiatives, rather than a separate project in itself. Hence, it has to be gradually adopted in development initiatives by incorporating Energy Efficiency concept.

TDF is cognizant of relevance of social responsibilities to emerging crucial issues like energy efficiency and environment for sustainable development. Hence, it puts high priority to make EE as an integral part of its business process as a way forward by encouraging and factoring in relevant interventions to nurture energy efficiency in procurement and operational practices as social responsibility. This Programme will be extended as NEEP III supported by GiZ.





# Annual Progress 2016-17

## Target & Progress of FY 2073/74

SN	GoN/DPs	Programs	Project end Period	Target			Investment			Progress (%)
				Grant	Loan	Total	Grant	Loan	Total	
1	KfW	1.1 TDP II & III	End 2017	55,440	394,785	450,225	12,876	163,422	176,298	39%
		1.2 GoN Matching Grant		50,775	-	50,775	16,187	-	16,187	32%
		<b>Total</b>		<b>106,215</b>	<b>394,785</b>	<b>501,000</b>	<b>29,063</b>	<b>163,422</b>	<b>192,485</b>	<b>38%</b>
		1.3 DPH		-	-	-	2,884	-	2,884	
		2.1 Revolving Fund		-	120,000	120,000	-	61,347	61,347	51%
2	TDF Own Source	2.2 Gon Matching Grant	Yearly	120,000	-	120,000	115,027	-	115,027	96%
		2.3 GoN Matching (Study & Supervision)		8,000	-	8,000	4,367	-	4,367	55%
		<b>Total</b>		<b>128,000</b>	<b>120,000</b>	<b>248,000</b>	<b>119,394</b>	<b>61,347</b>	<b>180,741</b>	<b>73%</b>
3	World Bank	Urban Governance & Development Programme (UGDP)	2017 end	240,000	130,000	370,000	139,256	62,552	201,808	55%
		<b>Total</b>		<b>240,000</b>	<b>130,000</b>	<b>370,000</b>	<b>139,256</b>	<b>62,552</b>	<b>201,808</b>	<b>55%</b>
4	World Bank	GPOBA	2017 end June	105,000	-	105,000	105,000	-	105,000	100%
5	ADB	STWSSSP II	2017 end	-	40,000	40,000	-	134,084	134,084	335%
6	ADB	STWSSSP III	2021 January	-	750,000	750,000	-	467,057	467,057	62%
7	ADB	STIUEIP	2017 end	-	300,000	300,000	-	212,108	212,108	71%
8	ADB	IUDP	2018 end	-	287,000	287,000	-	183,602	183,602	64%
9	TDF Own Source	STWSSSP I ( Rev)	2018 end	-	290,500	290,500	-	224,892	224,892	77.00%
<b>Grand Total</b>				<b>579,215</b>	<b>2,312,285</b>	<b>2,891,500</b>	<b>395,597</b>	<b>1,509,064</b>	<b>1,904,661</b>	<b>66%</b>



## Loan Recovery Progress Status as of July 15, 2017 (FY 2073/74)

SN	Projects	Total Principle Receivable	Total Interest Receivable	Total Receivable	Total Principle Received	Total Interest Received	Total Received
1	KFW II	176,705,410.32	168,936,595.71	345,642,006.03	190,182,519.29	153,822,998.85	344,005,518.14
2	KFW III	50,452,106.56	55,384,779.94	105,836,886.50	66,209,007.75	54,186,548.02	120,395,555.77
3	UEIP	70,288,134.01	95,341,554.18	165,629,688.19	64,461,861.43	87,596,265.82	152,058,127.25
4	STIUEIP	23,492,744.88	58,650,463.23	82,143,208.11	27,075,129.35	58,650,463.23	85,725,592.58
5	STWSSSP I	450,970,631.38	535,008,061.54	985,978,692.92	425,113,476.19	505,610,490.10	930,723,966.29
6	STWSSSP II	199,954,872.71	231,653,921.96	431,608,794.67	165,645,007.57	214,851,592.68	380,496,600.25
7	IUDP	3,171,452.14	38,623,706.20	41,795,158.34	3,361,549.65	38,623,706.20	41,985,255.85
8	TDF-RF	30,723,407.01	10,014,450.82	40,737,857.83	29,929,064.60	8,088,482.46	38,017,547.06
9	TA STW I (Reh Loan)	15,790,529.89	7,539,197.48	23,329,727.37	11,633,996.46	6,539,277.44	18,173,273.90
10	WB UGDP: ETP	3,157,067.62	11,203,989.64	14,361,057.26	3,213,580.56	11,203,989.64	14,417,570.20
11	STW-III	17,398,328.78	5,213,232.16	22,611,560.94	5,030,496.54	5,213,232.16	10,243,728.70
	<b>Total</b>	<b>1,042,104,685.30</b>	<b>1,217,569,952.86</b>	<b>2,259,674,638.16</b>	<b>991,855,689.39</b>	<b>1,144,387,046.60</b>	<b>2,136,242,735.99</b>
		<b>Total Progress %</b>					<b>95%</b>



# Annual Activities

## Additional Loan to Phidim WUSC

**P**hidim Small Towns Water Supply Project covers service area of ward no. 1-5 of Phidim with 24 hours continuous supply of potable water, as recommended by Nepal Drinking Water Quality Standard (NDWQS) guidelines. The project directly benefits the population of 10,675 living in 1,568 households. The major components of the for additional of project includes, rehabilitation of Intake, Collection Chambers, Break Pressure Tanks, Roughening Filter, Slow sand filters, Transmission pipeline, Distribution system, RCC Reservoir, House Connections, Community Tap Stands, Guard House, Electric facilities and necessary appurtenances. The project is currently at the Operation and Maintenance (O & M) Phase.



The Executive Director of TDF, Mr. Maniram Singh Mahat, and the Treasure of Phidim Water Supply and Sanitation Users Committee (WUSC) Mr. Mahendra Kumar Nembang signed an additional loan agreement of NRs. 2,950,000 on 29th December 2017 amidst a function held in the office of TDF, New Baneshwore.

## Additional Loan to Narayan WUSC

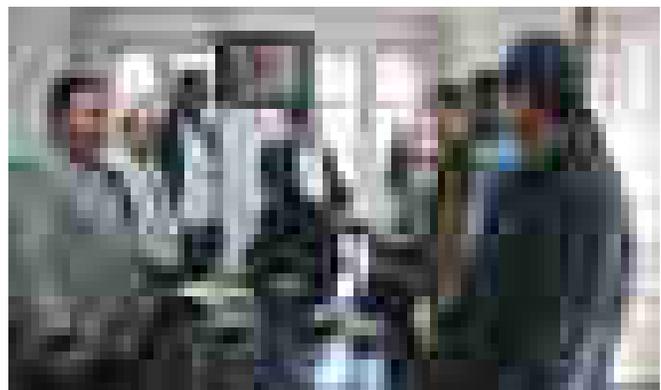
The Executive Director of Town Development Fund (TDF), Mr. Maniram Singh Mahat, and the Chairperson of Narayan Water Supply and Sanitation Users Association (WUSC) Mr. Balaram Shrestha signed an additional loan agreement of NRs. 21,094,000 on 31th December 2017 in the presence of representatives from of the WUSC and senior officials of TDF. Total approved loan for Salyan is NRs. 105,488,986.00.



The service area delineated covers the ward no 1-9 of Narayan Municipality, ward no. 2,4,5,and 6 of Bhawani VDC, ward no. 8 and 4 of Kharigaira VDC, ward no. 8 of Baluwatar VDC and ward no. 2 of Raniban VDC. The project will directly benefit the population of 16,073 living in 2,704 households. The major components of the project includes, Intake, Collection Chambers, Break Pressure Tanks, Sedimentation tanks , Rapid sand filters, Transmission pipeline, Distribution system, RCC Reservoir, House Connections, Community Tap Stands, Guard House, Electric facilities and necessary appurtenances. The project is currently at the 2nd stage which means Operation and Maintenance (O & M) Phase.

## Additional Loan to Khadbari WUSC

TDF has sanctioned additional loan amount to Khandbari Water Supply and sanitation Project through Water User's committee. Additional loan amount NPR 22, 800, 000 was sanctioned on 31 the December 2017 between TDF and WUSC. Mr. ManiramSingh Mahat, Executive Director, TDF and the Chairperson of Khandwari Water Supply and Sanitation Users Committee (WUSC) Mr. Narendra Kumar Rai signed an additional loan agreement in a function





held in the office of TDF, New Baneshwore. Including to this loan amount, the total approved loan amount for Khandabari Water User Committee is NRs. 205,278,781. The maturity of the loan will be 25 years with 5 year grace period. The WUSC has already matched 5% of the total project cost as upfront cash deposit.

The project delineation of service area covers the entire Khandwari Municipality, ward no 6 of Diding VDC and ward no. 2 of Machchapokhari VDC with 24 hours continuous supply of potable water, as recommended by Nepal Drinking Water Quality Standard (NDWQS) guidelines. The project will directly benefit the population of 23,305 living in 4,843 households, fulfilling the estimated demand.

### Additional Loan to Duhabi WUSC



The Executive Director of TDF, Mr. Maniram Singh Mahat, and the chairperson of Duhabi Water Supply and Sanitation Users Committee (WUSA) Mr. Tej Narayan Prasad Rauniyar signed an additional loan agreement of NRs. 3,720,000 on 31st December 2017 in the office of TDF, New Baneshwore, in the presence of representatives from of the WUSA and senior officials of TDF. Total approved loan amount including previous loan/s will be NRs. 57,853,109. . The major components of the project includes, tube well and pumping stations, electrical facilities, reservoir, water treatment facility, main distribution, house connection and necessary appurtenances. The project is currently at the 2nd stage, Operation and Maintenance Phase, of its implementation.

### Additional Loan to Byas-Damauli WUSC

The representative of Town Development Fund, Mr. Subas Raj Panta and the chairperson of Byas Water Supply and

Sanitation Users Committee (WUSA) Mrs. Meera Joshi signed an additional loan agreement of NRs. 10,000,000 on 30th December 2017 amidst a function held in the office of WUSA, Damauli, Tanahu, in the presence of representatives from of the WUSA for the total approved loan amount of NRs. 117,774,968. **The project delineation of service area covers ward no. 1,2,10 and 11 Byas Municipality with 24 hours continuous supply of potable water, as recommended by Nepal Drinking Water Quality Standard (NDWQS) guidelines. The project will directly benefit the population of 20,489 living in 4,553 households, fulfilling the estimated demand.** The major components of the project includes, Intake, collector and sump well, Pumping, Electric facilities , Sedimentation Tank, Roughening Filter, Slow sand filters, Chlorine Dosing unit , Transmission pipeline, Distribution system, RCC Reservoir, House Connections and necessary appurtenances. The project is currently at the 2nd stage which means Operation and Maintenance (O & M) Phase.

### Additional Loan to Kathariya WUSC

Mr. Maniram Singh Mahat, Executive Director (TDF) signed a loan agreement with M/s Kathariya Water Supply and Sanitation Users' Committee (WUSC) on 30th November 2017 amidst a function held in the office of TDF, New Baneshwore, in the presence of Secretary and Treasurers of the users' committee for the total approved loan amount of NRs. 3,54,63,259.00. The users' committee will receive 70% of total project cost from the Government of Nepal as grant and 5% is already matched by the users' committee as upfront cash deposit.

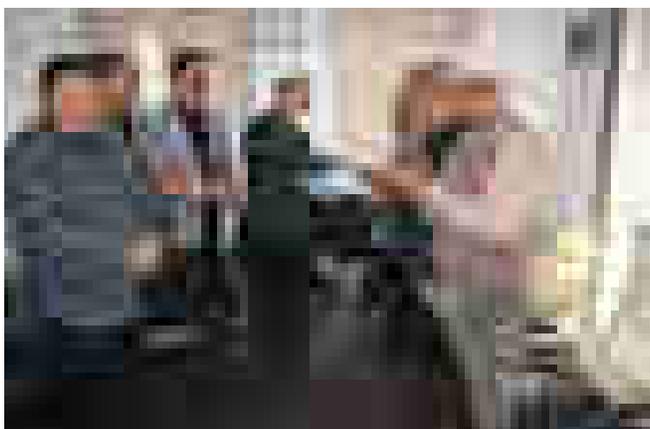


The project delineation of service area covers entire 9 wards of Kathariya VDC with 24 hours continuous supply of potable water, as recommended by Nepal Drinking

## Town Development Fund

Water Quality Standard (NDWQS) guidelines. The project will directly benefit the population of 10,008 living in 1,639 households, fulfilling the estimated demand of 1,399 MLD in the base year 2018 and beyond up to year 2038. The major components of the project includes, system analysis, tube well and pumping stations, electrical facilities, reservoir, water treatment facility, distribution main, house connection and necessary appurtenances. The construction period is 18 months and it is expected that the 1st stage of project will be completed by mid of 2019.

### Additional Loan to Khalanga-Sitalpati WUSC

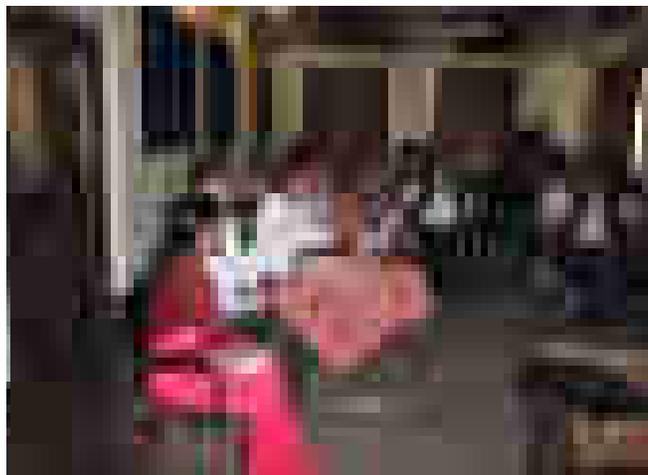


Executive Director of Town Development Fund (TDF), Mr. Maniram Singh Mahat and Chairperson of Khalanga-Sitalpati Water Supply and Sanitation User Committee, Mr. Purna Chandra Rai signed the additional loan agreement for the project equivalent to NRs. 6,235,053.00 on 18th December 2017 at office of Town Development Fund, Kathmandu. Previously, TDF had sanctioned NRs. 32,581,415.80 for the project, which was 25% of the total project cost of NRs. 130,325,663.00. Hence, the revised total loan amount sanctioned by TDF for the project is NRs. 38,816,468.80.

The project is being implemented under 'Third Water Supply and Sanitation Sector Project', an ADB assisted project, with financial mechanism covering 70% of the project cost as grant assistance by the GoN, 25% as loan provided by TDF and remaining 5% matched by Water Users' Committee. Currently, the project is running on the 2nd Stage, which is Operation & Maintenance phase, for one year, effective from April 2017 to April 2018.

The project aims to serve with safe and adequate water supply to 7,817 people of the service area.

### Project Review Workshop



TDF organized a progress review meeting of the ongoing TDF financed projects under Town Development Programme (TDP I, II & III) funded by KfW (German Development Bank) on 13th November 2017, at Bharatpur, Chitwan with participation of newly elected mayors of 10 municipalities, including Bharatpur, Biratnagar, Butwal, Birgunj, Nepalgunj, Birendranagar, Bhimdatta and Tulsipur. The main objective of the review meeting was to critically review the progress to ensure timely completion of the projects being financed by TDF and quality of construction.

The review meeting was held at Bharatpur Garden Resort, Bharatpur, Chitwan, having Ms. Renu Dahal, Mayor of Bharatpur Metropolitan City, as the chief guest, which was chaired by Mr. Dhruva Rijal, the Chairperson of TDF. The Executive Director of TDF Mr. Maniram Singh Mahat highlighted the objectives of the project review meeting. Technical team from TDF, procurement expert, representatives of municipalities along with the concerned consultants and contractors involved in the project implementation in respective municipalities presented the project status. During the meeting, the issues related to design, construction supervision and physical progress was intensively discussed to expedite the progress.

The review meeting was very fruitful to spell out underlying issues and come up with pragmatic solutions to complete the project on time. At the same time, it was taken as an opportunity to familiarize the newly elected



mayors about the TDF funded projects in their respective municipalities.

TDF has regularly been organizing such review meetings in different regions of the country for project monitoring purpose.

### Loan to Biratnagar Metropolitan City (BMC)

Under ADB line of financing the project scope covers a) sewer pipe line network of 62,835 meter to collect sewerage from municipality to treatment plant including 5,930 house connection, b) storm water drainage network of around 40,000 meter of new line including cleaning and maintenance of existing drain of 41,000 meter and c) waste water treatment Plant.



The project's objective is to implement urban environment Programme on an integrated basis, in the project areas including sewerage system improvement, storm water drain improvement, waste-water treatment, and road/lanes improvement. It also includes community development programs such as awareness raising in health and hygiene and waste management using 3R (reduce, reuse and recycle), investment in small scale community facilities and strengthen capacity of the Biratnagar Metropolitan City, the gateway city of eastern Nepal.

Mayor of BMC Mr. Bhim Parajuli and Executive Director of TDF Mr. Maniram Singh Mahat signed the additional loan agreement for the project equivalent to NRs. 62,145,381.82 on 14th December 2017 at office of Town Development Fund, Kathmandu.

The revised cost of project with variation and VAT is NRs. 2,956,290,542.71. Total loan from TDF will be about NRs. 325,191,959.7 only (11% of total project cost).

### TDF Felicitated as the Highest Income Tax Paying Institution



TDF was recently felicitated as the "highest income tax depositing institution for the fiscal year 2073/74"; in a Programme organized by the Inland Revenue Office, Babarmahal(Kathmandu Area-1) Department, Ministry of Finance and FNCCI, Kathmandu. Mr. Maniram Singh Mahat, the executive director of TDF, received the letter of appreciation.

### Milestone in Public Transport Financing



The Executive Director of Town Development Fund (TDF), Mr. Maniram Singh Mahat, signed a loan and grant agreement with Digo Sarbajanik Yatayat (P) Ltd. The private sector bus operating company, on 16th November 2017 amidst a function held in the office of TDF, New Baneshwore, in the presence of representatives

of Kathmandu Sustainable Urban Transport Project (KSUTP/PMCO), Department of Transport Management (DoTM) and Asian Development Bank ADB/NRM.

**MoU Signed between TDF and UNCDF**



Town Development Fund (TDF) and the United Nations Capital Development Fund (UNCDF) agreed to cooperate to improve the capacity of municipalities in Nepal to access domestic capital for financing municipal infrastructure development and service delivery, for which both parties signed a MoU on 10th December 2017. The MoU was signed by Mr. Maniram Singh Mahat, Executive Director of TDF, and Ms. Judith Karl, Executive Secretary of UNCDF, which will be effective from the date of signature until 31 December 2018.

Under this cooperation, TDF seeks assistance from UNCDF to build a pipeline of bankable municipal finance projects in selected pilot municipalities, expand blended financing and build internal capacities to be able to access capital markets for addressing its growing portfolio.

Hence, MoU aims to assist a selected pilot municipalities to develop a pipeline of capital investment proposals and assessment of creditworthiness, so that they can secure increased scale of financing, and alongside assist TDF in carrying out its preparations to secure financing from the capital market to expand the scale of its financing to municipalities.

**MoU Signed between TDF and Korean Society of Smart Water Grid Management**

Korean Society of Smart Water Grid Management, Incheon, Korea was interested to cooperate with TDF to support selected small town water supply users committees of Nepal in initiating use of ICT. The two parties signed a Memorandum of Understanding (MoU) on 10th December 2017. The MoU was signed by Mr. Maniram Singh Mahat, Executive Director of TDF, and Pro. Dr. Gye Woon Choi, chairman of Society of Korean

Smart Water Grid Incheon University, Incheon, Korea.



Under this cooperation, TDF seeks assistance from UNCDF to build a pipeline of bankable municipal finance projects in selected pilot municipalities, expand blended financing and build internal capacities to be able to access capital markets for addressing its growing portfolio.

Hence, MoU aims to assist a selected pilot municipalities to develop a pipeline of capital investment proposals and assessment of creditworthiness, so that they can secure increased scale of financing, and alongside assist TDF in carrying out its preparations to secure financing from the capital market to expand the scale of its financing to municipalities.

**Workshop on Strengthening Municipal Finance concluded**

The Town Development Fund (TDF), in association with the United Nations Capital Development Fund (UNCDF), organized a one-day Workshop on Strengthening Municipal Finance in Nepal on 5th January 2018 at Park Village Resort, Budhanilkantha, Kathmandu, as a part of joint cooperation between TDF and UNCDF.

The main objective of the workshop was sensitization for enhancement of financial capacity of municipalities for the improved urban infrastructure and services. The workshop was participated by the mayors, deputy mayors, senior engineer/planner and senior finance officers from 9 municipalities namely, Dharan Sub-metropolitan City, Butwal Sub-metropolitan City, Bhadrapur Municipality City, Dhangadhi Sub-metropolitan City, Hetauda Sub-metropolitan City, Tulsipur Sub-metropolitan City,



Mechinagar Municipality, Tansen Municipality and Bhimdatta Municipality.

During the workshop, 3 technical papers were presented. Mr. Suresh Balakrishnan, Regional Technical Adviser/ UNCDF presented a paper on Non-grant Financing Options for municipalities. Similarly, Mr. Suman Meher Shrestha, BDPM Specialist/TDF, presented a paper on Developing Pipeline Projects for the municipalities. Likewise, Mr. Resta Jha, FM Specialist/ TDF, gave an overview on the process of achieving key result area of enhanced financial capacity of TDF and the municipalities.

The event was also participated by various top level bureaucrats from the Ministry of Finance (MoF) and Ministry of Local Development and Federal Affairs (MoFALD) as resource persons. Mr. Nirmal Hari Sharma, Joint Secretary/MoF, gave an overview on the Inter-governmental Fiscal Transfer to the municipalities in the federal context and Mr. Suresh Adhikari, Joint Secretary/ MoF, discussed about the roles and responsibilities of local level government in the changed context of federal structure. Similarly, Dr. Baikuntha Aryal, Secretary / NNRFC, gave synopsis on mobilization of resources, including donor findings for development of urban infrastructure and services.

The inaugural session of the workshop was chaired by Mr. Dhruva Rijal, Chairperson, TDF and the workshop was wrapped up with the concluding remarks by Mr. Maniram Singh Mahat, the Executive Director of TDF.

## Accessing the Global Climate Fund (GCF)

The Green Climate Fund (GCF), a financial mechanism under the UNFCCC, is a new global fund created to support the efforts of developing countries to respond to the challenge of climate change. GCF helps developing countries limit or reduce their greenhouse gas (GHG) emissions and adapt to climate change. It seeks to promote a paradigm shift to low-emission and climate-resilient development, taking into account the needs of nations that are particularly vulnerable to climate change impacts.



GCF launched its initial resource mobilization in 2014, and rapidly gathered pledges worth USD 10.3 billion. These funds come mainly from developed countries, but also from some developing countries, regions, and one city (Paris).

Recently TDF has been selected by the as the potential national entity for Global Climate Fund (GCF) accreditation process by National Designated Authority (NDA), International Economic Cooperation Division, MoF, GoN Cooperation. TDF has initiated formal application process for getting accredited as Accredited Entity (EA).

GCF is seen as a potential source of fund by TDF for financing climate resilient urban infrastructure projects in Nepal.





# Financial Statement of Entity

## Balance Sheet

as at Ashadh 31, 2074 (July 15, 2017)

	Sch	This Year NRs.	Previous year NRs.
<b>Equity and Liabilities</b>			
Equity contribution from GON		2,458,368,185.21	2,458,368,185.21
Retained Earnings			
- as per income and expenditure statement		633,753,215.16	422,452,647.67
Capital Reserve Fund	1	5,364,677.07	6,962,289.07
GON Matching Grant		439,456,944.00	301,456,944.00
Development Finance Fund	2	1,062,229,885.12	875,409,519.73
Disposition Fund - Town Development Program	3	(20,000,380.12)	27,100,365.88
Disposition Fund - District Health Project	4	752,217.84	3,631,895.84
IDA Grant Fund - UGDP		241,254,187.32	455,422,582.62
IDA GPOBA		66,344,623.56	50,955,498.70
Long Term Loan			
- under subsidiary agreement with GON	5	3,193,934,852.42	2,108,466,997.42
Current Liabilities and provision	6	408,319,186.74	350,202,196.93
<b>Total Capital and Liabilities</b>		<b>8,489,777,594.32</b>	<b>7,060,429,123.07</b>
<b>Assets</b>			
Fixed Assets	7	141,749,621.33	11,385,479.33
Investment	8	950,000,000.00	850,000,000.00
Long Term Loan	9	5,696,989,260.84	4,293,820,879.02
Grant/Advance	10	400,861,160.11	530,780,803.11
Current Assets			
Cash and Cash equivalents	11	1,021,485,166.43	1,145,949,806.99
Loan recoverable in short term	12	50,277,000.00	50,277,000.00
Other current Assets	13	228,415,385.61	178,215,154.62
<b>Total Assets</b>		<b>8,489,777,594.32</b>	<b>7,060,429,123.07</b>
Schedules 1 to 18 are integral part of the Financial Statement.		-	-



## Income Statement

For the year ended Ashadh 31, 2074 (July 15, 2017)

	Sch	This Year NRs.	Previous Year NRs.
<b>Income</b>			
Interest Income	14	342,644,404.42	248,123,666.67
Other Income	15	27,204,779.29	25,243,372.41
Grant Income		124,055,865.52	53,923,989.62
<b>Total Income</b>		<b>493,905,049.23</b>	<b>327,291,028.70</b>
<b>Expenses</b>			
Interest Expenses		62,594,566.00	37,433,968.00
Personnel Cost	16	33,257,652.20	24,703,396.24
Office Expenses	17	20,329,307.05	22,165,990.39
Grant Expenses	17A	124,055,865.52	53,923,989.62
Depreciation	7A	1,069,408.00	948,655.00
Loan Loss Provision		-	-
<b>Total Expenses</b>		<b>241,306,798.77</b>	<b>139,175,999.25</b>
Profit before Tax		252,598,250.46	188,115,029.45
Income Tax-Provision		(40,484,493.97)	(41,854,980.00)
Net profit for the year		212,113,756.49	146,260,049.45
Retained Earnings Brought Forward		422,452,647.67	276,178,398.22
Profit during the year		212,113,756.49	146,260,049.45
Prior Year's Adjustment		(813,189.00)	14,200.00
Balance -transferred to Balance Sheet		<b>633,753,215.16</b>	<b>422,452,647.67</b>
Significant accounting policies and Notes to Accounts	18		

Schedules 1 to 18 are integral part of the Financial Statement.



## Cash Flow Statement

For the year ended Ashadh 31, 2074 (July 15, 2017)

	This Year	Previous Year
	NRs.	NRs.
<b>Cash Flow from Operating Activities</b>		
Interest Received from loan	217,066,428.35	131,495,173.65
Cash Received from Other Income	5,385,577.21	3,164,759.71
Cash Received from Grant Income	-	-
Interest Expenses paid	(6,896,200.00)	(7,433,561.00)
Personnel expenses	<b>(33,257,652.20)</b>	(24,703,396.24)
Office Running Expenses	<b>(20,202,044.13)</b>	(21,998,869.70)
	162,096,109.23	80,524,106.42
<i>(Increase)/decrease in operating assets</i>		
Inventory	(42,868.36)	(3,359.22)
Other Advances	3,144.09	116,851.17
	162,056,384.96	80,637,598.37
Income Tax paid	(63,399,606.66)	(24,152,088.80)
<i>Net Cash Flow from Operating activities</i>	98,656,778.30	56,485,509.57
<b>Cash Flows from Investing Activities</b>		
Purchase of Fixed Assets	(133,031,162.00)	(329,209.00)
Investment on Fixed Deposit of Banks	(100,000,000.00)	(150,000,000.00)
Loan disbursed from KfW Disposition Fund	(163,421,996.00)	(69,210,958.00)
Loan disbursed from GON (ADB/STWSSSP - II & III , STIUEIP & IUDP)	(996,853,086.59)	(912,657,818.00)
Loan disbursed from GON ( IDA/UGDP)	(62,552,400.00)	(45,175,858.00)
Loan disbursed from TDF Equity Fund	(286,257,362.00)	(47,888,851.00)
Loan disbursed to Staff	(23,771,472.00)	-
Loan recovered	251,457,737.90	204,858,876.74
Transferred to Revolving Fund		
- recovery of Loan from KfW financial contribution	(44,658,244.30)	(39,863,639.36)
Loan Recovered from Staffs	2,888,590.30	478,330.37
<i>Net Cash from investing activities</i>	(1,556,199,394.69)	(1,059,789,126.25)

Contd...



**Cash Flows from Financing Activities**

Increase in KfW Disposition fund		
- fund transfer from Kfw II , III & DHP	130,779,574.00	62,393,743.00
- interest income and exchange gain/loss	(1,577,899.00)	463,839.00
Fund transfer from GON (ADB Funded Program)	1,177,000,000.00	1,011,000,000.00
Fund transfer from GON - Matching Grant	138,000,000.00	99,085,000.00
Fund transfer from GON - UGDP Grant	189,865,000.00	309,575,000.00
Fund transfer from GON - UGDP Loan	(80,380,223.00)	58,635,000.00
Grant disbursed to municipalities and others	(400,557,105.52)	(262,249,016.62)
Fund transfer from GON /WB - GPOBA grant	159,461,663.20	29,839,872.00
Fund transfer to GON - DA Account of GPOBA	(39,072,538.00)	(16,113,891.00)
Service charge transferred from KFW Disposition Fund	(1,329,972.00)	(813,304.80)
Service income transferred from UGDP Grant Fund	(2,057,980.00)	(1,659,855.00)
Service income transferred from GPOBA Grant Fund	(1,551,625.00)	(577,426.00)
Fund received from ADB and GIZ Grant Fund	9,905,772.88	3,530,401.97
Increase in Revolving Fund		
- recovery of Loan from KfW financial contribution	44,658,244.30	39,863,639.36
Increase in Revolving Fund - Int. income KFW loan	13,290,459.28	8,685,162.42
Increase in Special Reserve - Int. income KFW loan	7,796,526.69	8,458,204.59
Repayment of GON (ADB/ UEIP) loan	(11,151,922.00)	(10,614,560.00)
Payment of retention money	-	(341,089.90)
<i>Net Cash Flow from financing activities</i>	1,333,077,975.83	1,339,160,719.02
<b>Net increase in Cash and Cash equivalents</b>	(124,464,640.56)	335,857,102.34
<b>Cash and Cash equivalents at beginning of the year</b>	1,145,949,806.99	810,092,704.65
<b>Cash and Cash equivalents at end of the year</b>	1,021,485,166.43	1,145,949,806.99

Schedules 1 to 18 are integral part of the Financial Statement.

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## Changes on Equity

For the year ended Ashadh 31, 2074 (July 15, 2017)

Particular	Share Capital	General Reserve	Retained Earnings	Capital Grant Fund	Total Nrs.	Previous year
Last Year' Balance	2,458,368,185	875,409,520	422,452,648	6,962,289	3,763,192,642	3,527,366,715
Addition for This Year	-	186,820,365		(1,597,612)	185,222,753	89,551,677
Profit for the year			212,113,756		212,113,756	146,260,049
Prior Year's Adjustment			(813,189)		(813,189)	14,200
<b>Balance as on 31 Ashadh, 2074</b>	<b>2,458,368,185</b>	<b>1,062,229,885</b>	<b>633,753,215</b>	<b>5,364,677</b>	<b>4,159,715,962</b>	<b>3,527,366,715</b>



# Financial Statement: Project Level

## Urban Governance Development Program :Emerging Town Project (UGDP/ETP)

### Fund Accountability Statement

(For the Period from July 16, 2016 to July 15, 2017)

<b>A.</b>	<b><u>Sources of Fund</u></b>	<b><u>Amount(NPR)</u></b>
	<b><u>Opening Balance</u></b>	
	Total Opening Cash Balance Carried forward	343,431,484.24
	<b><u>Receipt during the year</u></b>	
	Project Coordination Office(PCO)	189,865,000.00
	Loan refund from Dhankuta Municipality of 014/15 (Canceled Project)	131,671.00
	<b>Total Source of Fund (A)</b>	<b>533,428,155.24</b>
<b>B.</b>	<b><u>Application of Fund</u></b>	
	Nepal Government (IDA Source)	
	Loan to Municipalities	62,552,400.00
	Grant	
	Conditional Municipal Grant excluding DSM	132,838,285.00
	Conditional ID Grant to TDF ( Current)	9,984,663.30
	Conditional Municipal Grant -DSM	4,360,418.00
	Total Grant	147,183,366.30
	Applicable Service Charge	2,057,980.00
	<b>Total Application of Fund (B)</b>	<b>211,793,746.30</b>
	Balance of Fund (C) (A-B)	321,634,408.94
	<b>Unspent loan refund to GON (D)</b>	<b>80,380,223.00</b>
	<b><u>Net Balance of Fund (C-D)</u></b>	<b><u>241,254,185.94</u></b>

Notes as per attachment are an integral part of the statement.



## Town Development Programme II (TDP II)

### KfW Disposition Fund, Fund Accountability Statement For the Period from July 16, 2016 to July 15, 2017

	<u>Euro</u>	<u>NRs</u>
<b>A. <u>Commitment Of Fund</u></b>		
Original Commitment	7,159,329.55	
Additional Commitment		
Fund Transfer from KfW I Phase	199,263.58	
as per supplemental Financing Agreement	393,957.63	
Transfer from KfW Project no. 1996 66 546	152,261.30	
<b><u>Total Fund Commitment (I)</u></b>	<b><u>7,904,812.06</u></b>	
Less: Fund Transfer from KfW till July 15, 2017 (II)	6,261,364.08	
<b>Balance of Fund Commitment (I-II)</b>	<b>1,643,447.98</b>	
<b>B <u>Statement of Fund in EURO</u></b>		
<u>Sources of Fund</u>		
Balance of fund as on July 16, 2016	55,759.27	
Fund Transfer from KfW during the F/Y 2016/17	851,090.19	
Interest on KfW fund	360.71	
Bank charges/Tax	(234.11)	
<b>Total Sources of Fund (III)</b>	<b>906,976.06</b>	
<u>Utilization of Fund</u>		
Transfer into Nepalese Rupee Account (IV)	400,000.00	
Transfer Euro of TDP III	504,746.60	*
Balance with Bank in Euro account (III-IV)	<u>2,229.46</u>	
<b>C. <u>Movement of Fund in Nepalese Rupees</u></b>		
<u>Sources of Fund</u>		
Balance of fund as on July 16, 2016		6,998,189
Fund Transfer from EURO Account to Nepalese Rupees Account		45,738,500
<b>Total sources of fund (V)</b>		<u>52,736,689</u>
<u>Utilization of Fund</u>		
Loan		40,497,453
Grants		2,042,596
Service Charge		163,408
<b>Total Utilization of Fund (VI)</b>		<u>42,703,457</u>
<b>Balance in Rupee account as on July 15, 2017 (V-VI)</b>		<u>10,033,232</u>
<b>D <u>Total Balance of Fund as on July 15, 2017(EURO)</u></b>		
<u>Represented by</u>		
Balance in EURO account	2,229.46	
Balance in Rupee account	85,461.94	
<b>Total</b>	<u>87,691.40</u>	

Notes as per attachment are an integral part of this statement.

Note: Common Bank Account is maintained for NPR Rupee A/c

\*: EURO 504,746.60 has been debited for wa 10 from TDP II as per correction disbursement Advice no 17 dated 21.06.2017



## Town Development Programme II (TDP-III)

### KfW Disposition Fund, Fund Accountability Statement For the Period from July 16, 2016 to July 15, 2017

	<u>Euro</u>	<u>NRs</u>
<b>A. <u>Commitment Of Fund</u></b>		
Original Commitment	7,500,000.00	
<b><u>Total Fund Commitment</u></b>	<b>7,500,000.00</b>	
Less: Fund Transfer from KfW till July 15, 2017	2,687,331.44	
<b>Balance of Fund Commitment</b>	<b>4,812,668.56</b>	
<b>B <u>Statement of Fund in EURO</u></b>		
<u>Sources of Fund</u>		
Balance of fund as on July 15, 2016	48,916.88	
Fund Transfer from KfW during the F/Y 2016/17	291,400.63	
Interest on KfW fund	207.35	
Bank Charge/Tax	(10.37)	
<b>Total Sources of Fund</b>	<b>340,514.49</b>	
<u>Less:</u>		
Direct transfer from KfW in NRs. Account	291,400.63	
Transfer into Nepalese Rupee Account	45,000.00	
<b>Balance with Bank in Euro account</b>	<b>4,113.86</b>	
<b>C. <u>Movement of Fund in Nepalese Rupees</u></b>		
<u>Sources of Fund</u>		
Balance of fund as on July 15, 2016		3,614,172
Fund Transfer from KfW during the F/Y 2016/17 in Nepalese Nrs.		90,171,139
Fund Transfer from EURO account during the F/Y 2016/17 in Nepalese Nrs.		5,028,300
Bank charges		
<b>Total sources of fund</b>		<b>98,813,611</b>
<u>Utilization of Fund</u>		
Loan Disbursed		122,924,543
Grant Disbursed		9,879,513
<u>Service Charge</u>		790,361
<b>Total Utilization of Fund</b>		<b>133,594,417</b>
Balance in Rupee account as on July 15, 2017		<b>(34,780,806)</b>
To be Reimbursable from KfW as on July 15, 2017		34,780,806
<b>D <u>Total Balance of Fund as on July 15, 2017(EURO)</u></b>		
<u>Represented by</u>		
Balance in EURO account	4,113.86	
<b>Total</b>	<b>4,113.86</b>	
Notes as per attachment are an integral part of this statement.		
Note: Common Bank Account is maintained for NPR Rupee A/c		



## District Health Project (DHP)

### Fund Accountability Statement

For the Period from July 16, 2016 to July 15, 2017

	<u>Euro</u>	<u>NRs</u>
<b>A. <u>Commitment of Fund</u></b>		
Total Fund Commitment	3,476,784.79	
Less: Fund Transfer from KfW till July 15, 2017	1,838,987.82	
<b>Balance of Fund Commitment</b>	<b>1,637,796.97</b>	
<b>B. <u>Statement of Fund in EURO</u></b>		
<b><u>Sources of Fund</u></b>		
	27,810.57	
Fund Transfer from KfW during F/Y 2016/17	-	
Interest on KfW fund	46.22	
Bank charges/Tax	(6.94)	
<b>Total Sources of Fund</b>	<b>27,849.85</b>	
<b><u>Utilization of Fund</u></b>		
Transfer into Nepalese Rupee Account	25,000.00	
Balance with Bank in Euro account	<b>2,849.85</b>	
<b>C. <u>Movement of Fund in Nepalese Rupees</u></b>		
<b><u>Sources of Fund</u></b>		
Balance of fund as on July 16, 2016		65,646.10
Fund Transfer from EURO Account to Nepalese Rupees Account		2,890,500.00
Fund Inter Bank Transfer Deposit by TDF		
<b>Total sources of fund</b>		<b>2,956,146.10</b>
<b><u>Utilization of Fund</u></b>		
Disbursement		2,508,022
Service Charge		376,203
<b>Total Utilization of Fund</b>		<b>2,884,225.30</b>
<b>Balance in Rupee account as on July 15, 2017</b>		<b>71,920.80</b>
<b>D. <u>Total Balance of Fund as on July 15, 2017(EURO)</u></b>		
<b><u>Represented by</u></b>		
Balance in EURO account	2,849.85	
Balance in Rupee account	612.61	
<b>Total</b>	<b>3,462.46</b>	
Notes as per attachment are an integral part of this statement.		



## OBA in Solid Waste Management Project

### Summary of Sources and Uses of Funds

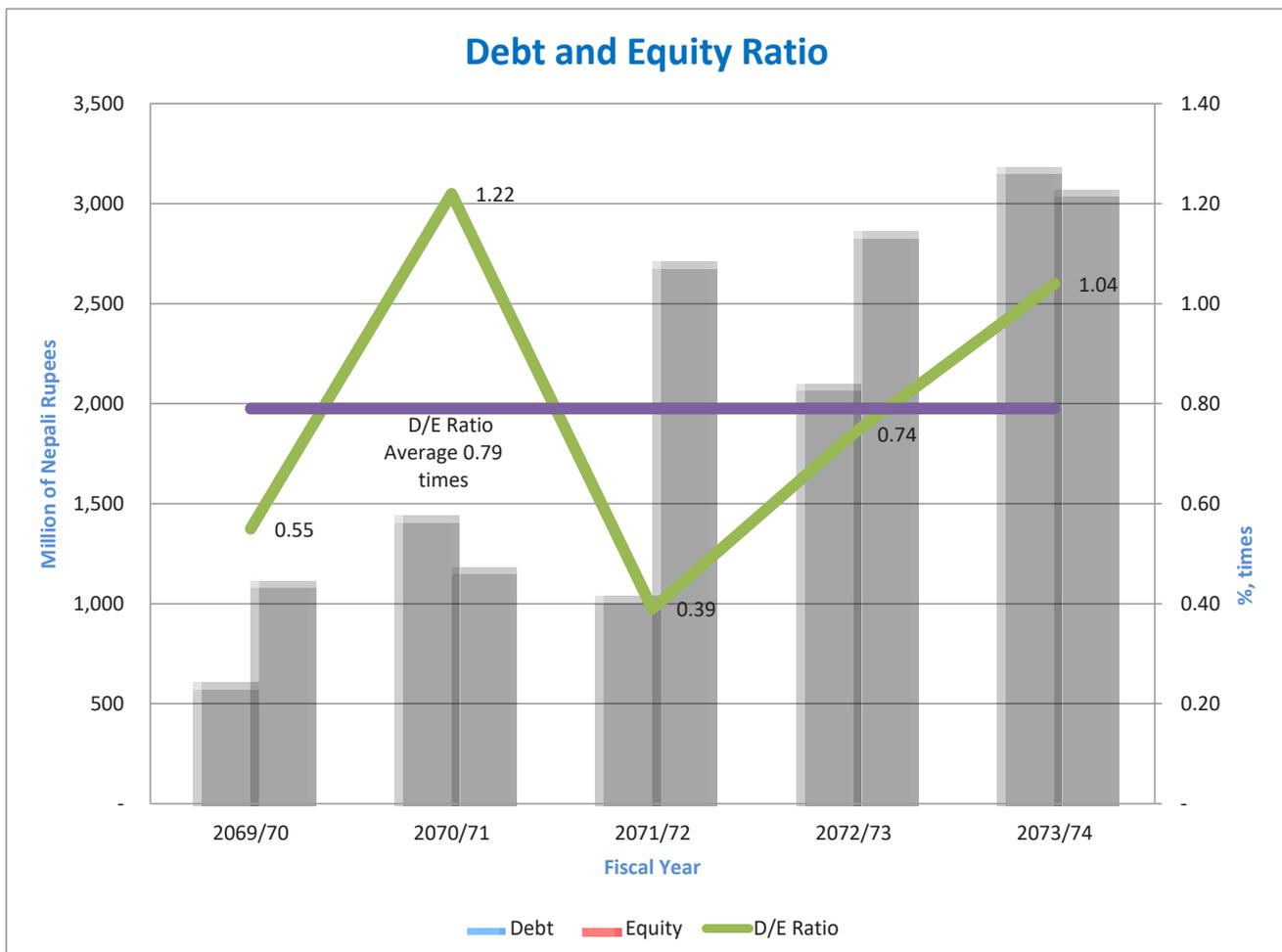
Amount in NPR

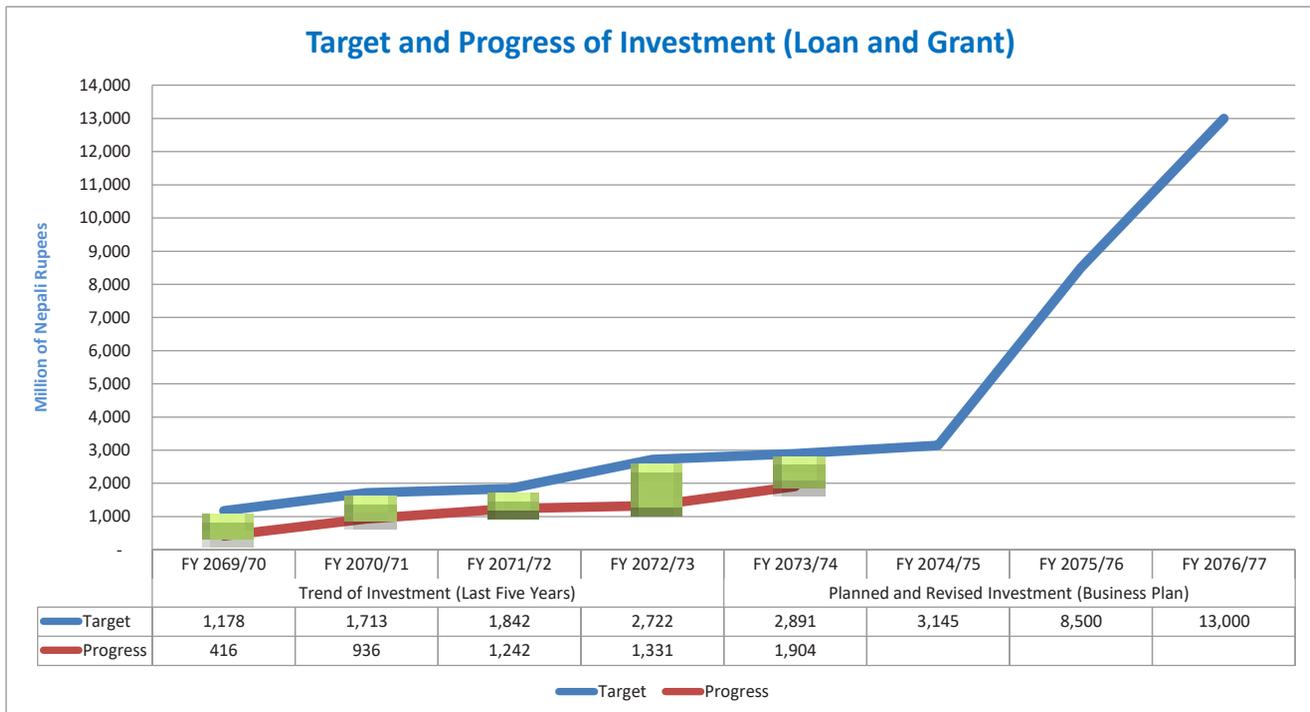
Description	Notes to Account	Cumulative up to Previous Fiscal Year	Current Fiscal Year 2016/17 (2016 July 16 - 2017 July 15 )	Cumulative to Date
Budget Allocation				
Approved Allocation		345,600,000.00	105,000,000.00	450,600,000.00
<b>A. Opening Cash/Bank Balance</b>		-	-	-
Cash/Bank balance of previous period		-	64,453,468.00	-
<b>B. Sources of Funds</b>			-	-
GoN Fund	1	-	-	-
GoN Reimbursable Fund	1	114,126,006.12	17,838,049.44	131,964,055.56
IDA Fund (Transfer+Direct Payment)	1	18,023,993.00	39,072,538.00	57,096,531.00
IDA Fund	1	3,489,817.00	-	3,489,817.00
<b>Total (A+B)</b>		<b>135,639,816.12</b>	<b>121,364,055.44</b>	<b>192,550,403.56</b>
<b>C. Uses of Funds by Category</b>				
Subsidies under part 1 of the project	3	40,247,243.00	67,689,722.00	107,936,965.00
Consultant's services, goods and Training under part 2 of the project	3	15,972,231.12	15,030,731.50	31,002,962.62
Consultant's services, goods and Incremental Operating Costs under Part 3 of the project	3	14,966,874.00	11,679,546.50	26,646,420.50
<b>Total</b>		<b>71,186,348.12</b>	<b>94,400,000.00</b>	<b>165,586,348.12</b>
D. Closing Balance		64,453,468.00	26,964,055.44	26,964,055.44
<b>Total (C+D)</b>		<b>135,639,816.12</b>	<b>121,364,055.44</b>	<b>192,550,403.56</b>
<b>Designated Account Statement</b>				
1 Opening Balance	2	-	31,510,409.14	-
2 Fund Received from IDA	2	49,856,945.19	65,351,110.76	115,208,055.95
3 Less: Transfer to GoN Treasury Account	2	21,513,810.00	39,072,538.00	60,586,348.00
4 Less: Direct Payment from Designated Account	2	-	-	-
5 Foreign Exchange Gain/Loss (+/-) as NRB adj.	2	3,167,273.95	(2,898,885.81)	268,388.14
<b>6. Closing Balance (3-4-5)</b>		<b>31,510,409.14</b>	<b>54,890,096.09</b>	<b>54,890,096.09</b>



### Financial Indicators :

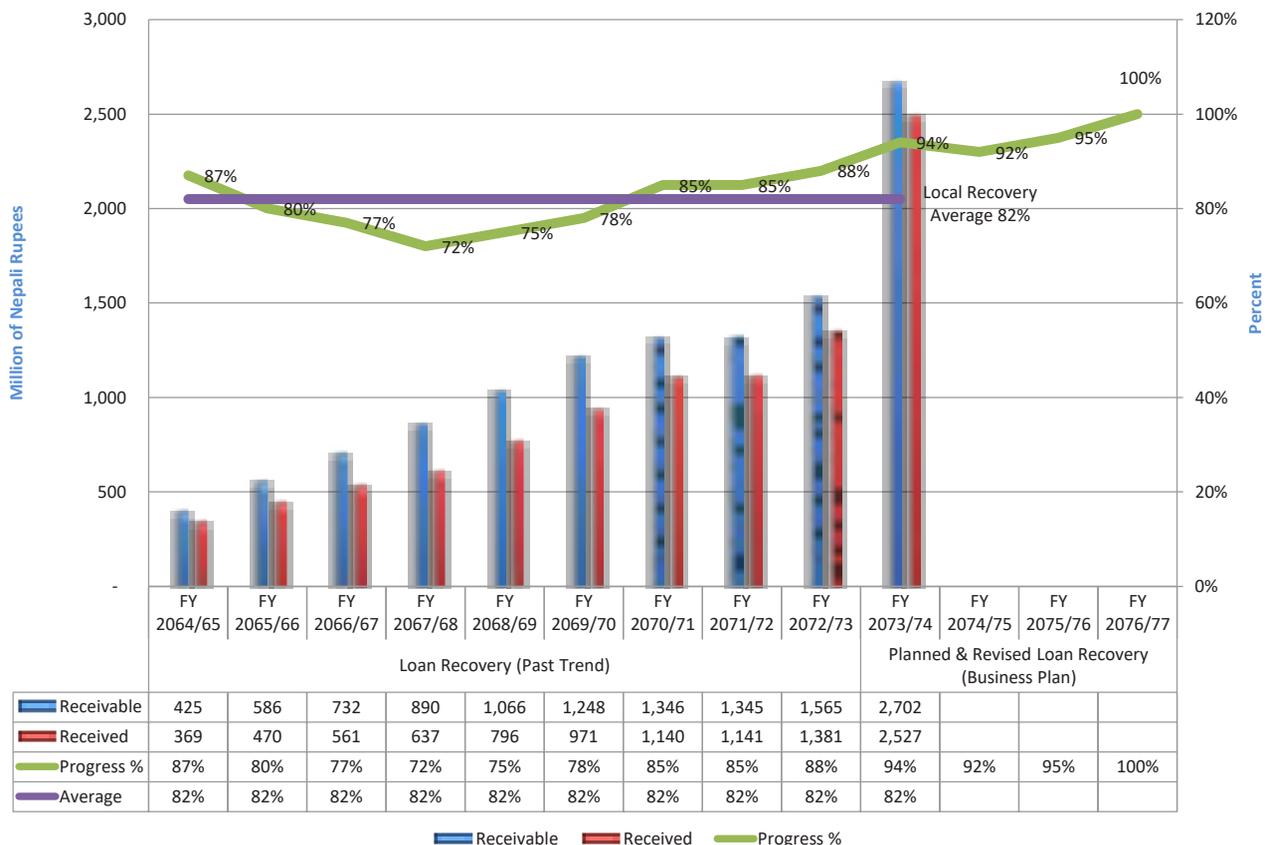
Debt Service Coverage Ratio (DSCR)	1.78 Times
Debt Equity Ratio	104.00%
Loan Loss Provisions to Total Loan Ratio	1.82%
Average interest rate on long term loan	4.30%
Interest earned to investment	10.18%
Net Profit to total income	42.95%
Interest expenses to total expenses	25.94%
Other operating expenses to total expenses	74.06%

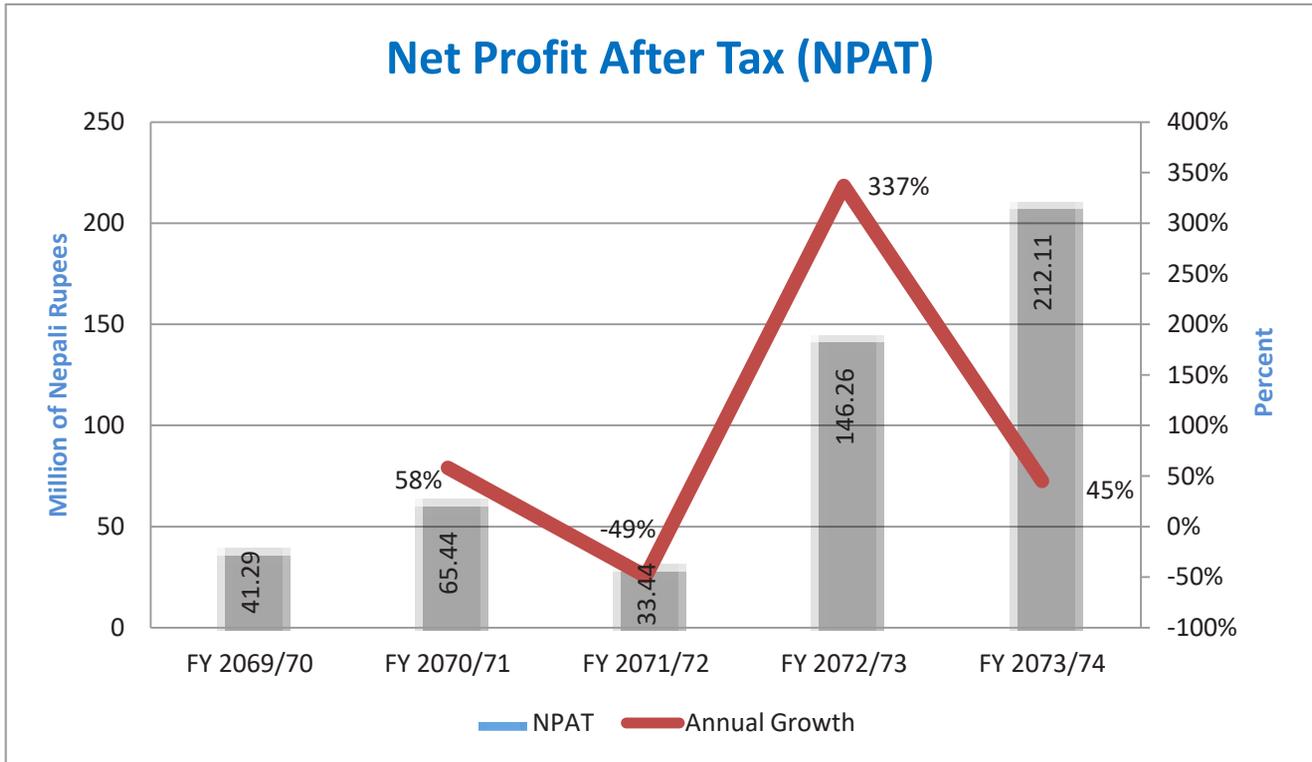




### Existing Trend of Loan Recovery and Planned (Business Plan FY 2073/74- FY 2076/77)

*Note: 92% target of Business Plan for loan recovery in FY 2073/74 was achieved as 94%*







# Future Road Map of Town Development Fund

## Restructuring of TDF

**Current scope and autonomy:** Town development Fund Act 2053 gives TDF a scope and autonomy to function as a financial intermediary institution for the development of urban infrastructures in Nepal. Hence, it is logical to restructure TDF as a full-fledged financial intermediary through a legislation which provides this institution with clear autonomy, mandate and responsibility to finance urban infrastructure projects. The objectives, functions and rights of the restructured TDF as a financial intermediary require to be enshrined in the new TDF Act.

Large capital base, transfers (grants) and loans from the federal government, borrowings of the government from the international financial institutions, long term borrowing of the TDF through the issuance of market based instruments like the bonds and deposit certificates can be the sources of fund for the proposed financial intermediary.<sup>1</sup>

**Proposed Capital Structure:** Given the huge investment demand for urban infrastructure, the proposed financial intermediary will have to possess at least NPR 20 billion of capital at the beginning along with an equal amount of other sources of fund. Other sources of funds can be generated through Institutional Long Term Deposits, Long term borrowing from national and international financial institutions (IFIs), Issuance of Long-term Bonds etc.

There is a need that a full-fledged financial law is enacted to operationalize TDF as a fully functioning financial intermediary. Key features of the proposed law governing the TDF could be the following<sup>2</sup>:

- I. TDF, as a financial intermediary will be operated within a special act formulated for municipal financing as the existing laws on banks and financial institutions will not serve the special purpose of this institution.

<sup>1</sup> Urban Finance Framework, TDF, 2015

<sup>2</sup> Ibid



## Town Development Fund

- II. The intermediary will have a strong capital base mostly owned by the government institutions and development partners.
- III. The intermediary will be a specialized agency to infrastructure financing and will co-work with other financial institutions to finance large municipal infrastructure projects.
- IV. The intermediary will be able to raise its equity capital through public offering of the shares up to 40 per cent and also would be enabled to raise fund from the capital market by issuing bonds and certificates of deposits for institutional savers. And,
- V. The organizational structure of the intermediary will be overhauled to make it more a business organization than as an agent of the government to carry forward ministerial task to the urban level.

The recommended strategies of creating bigger borrowing windows for the municipalities include restructuring TDF as a financial institution, strengthening its capital base, enhancing municipalities' borrowing capacity, and strengthening the borrowing capacity of TDF".

### Scaled up TDF as National Nodal Urban Development Fund

TDF can further contribute immensely by scaling up and expediting the process of urban infrastructure financing reforms through,

- utilizing the acquired expertise and institutional memory of TDF in project development, appraisal, procurement of services for project preparation and list out 'bankable' projects of municipalities over the years,
- Enabling and providing a mechanism for access of municipalities to lines of long-term, development credit (greater than 15 years tenure) as well as capital markets (through equity, bond financing and pooled financing),
- Acting as catalyst for greater private participation through bringing capacity to

drive appropriate models of engagement, risk assessment and allocation in bankable projects.

- Facilitating development and implementation of 'demonstration projects' that catalyze and reform for improving momentum towards greater private participation.

**Key Restructuring Actions:** The proposed activities for evolution and restructuring TDF are (i) bringing TDF under the umbrella of MoF from MoUD (already accomplished) and (ii) creating special legislation for the operation of TDF as an autonomous institution.

- The proposed activities for restructuring the capital base of TDF are (i) working on new capital structure with owners of equity and TDF Board and (ii) approving TDF's capital structure and raising its public equity share.
- The proposed activities for enhancing municipalities' borrowing capacity include (i) raising revenue performance of the municipalities, (ii) enabling municipalities to borrow for financially viable projects, and (iii) enhancing borrowing capacity appraisal System.
- The proposed activities for strengthening TDF's borrowing capacity are (i) undertaking credit rating of TDF, (ii) strengthening its staffing and business model, (iii) innovating proper instruments for borrowing (bonds, certificates, etc.), and (iv) approaching international financial institutions for soft loans.

### TDF's Business Plan (2016/17-2019/20): Kick off for Restructuring

It is obvious that (i) existing banks and financial institutions cannot cater the demand for large borrowings for infrastructure projects; (ii) they cannot serve investment demand in infrastructure projects of long term nature (25 years and of low rate of return (below the cost of capital); (iii) they cannot finance social infrastructure projects without supporting viability gap funding by other agencies like the government, municipality or the TDF; (iv) they are not interested in public sector or even PPP projects because of the political risk of the project; and (v) banks feel that financing municipal infrastructure projects incurs loan recovery hassles unlike for the private sector projects



whose loan collateral could be captured and auctioned to recover the loan as per the law.

There is a need that a full-fledged financial law is enacted to operationalize TDF as a fully functioning financial intermediary. TDF, as a financial intermediary will be operated within a special Act formulated for municipal financing as the existing laws on banks and financial institutions will not serve the special purpose of this institution. The intermediary will have a strong capital base mostly owned by the government institutions and development partners. The intermediary will be a specialized agency to infrastructure financing and will co-work with other financial institutions to finance large municipal infrastructure projects. The intermediary will be able to raise its equity capital through public offering of the shares up to 40 per cent and also would be enabled to raise fund from the capital market by issuing bonds and certificates of deposits for institutional savers. The intermediary will come under the umbrella of the

ministry of finance to better coordinate international funding agencies and mobilize resources from the domestic capital market.

TDF's operational expenses (personnel cost of NPR 19.5 million i.e. 20%, office expenses NPR 11 million i.e. 11%) have tended to range around 31% of total income, and it would be necessary to rationalize some of these costs centers under operation. TDF's operating costs is high mainly because it has to extend technical support to its clients.

**Capital Structure :** Given the huge investment demand for urban infrastructure, the proposed financial intermediary will have to possess at least NRs 20 billion of capital at the beginning along with an equal amount of other sources of fund. TDF is in process of working out for its new capital structure.







## **TOWN DEVELOPMENT FUND**

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