Loan and Grant Financing Policy for the Town Development Fund
Revolving Fund Sources Utilization

(Draft for Discussion, 29th August 2012)

The major aspects to be included in the Loan and Grant Financing Policy & Guidelines for the utilization of the Town Development Fund (TDF) Revolving Fund (RF) sources can be summarized as follows:

1) RF sources shall be used as loans for any local infrastructure projects in any of the categories as per the TDF's Common Financing Policy.
2) The eligible borrowers and grantees of TDF's Revolving Fund will be as mentioned in TDF's Act, 2053; and having the clean repayment record with sufficient borrowing capacity meeting the criteria as per Lending Policy of TDF.
3) Lending terms:
    a. Maturity Period up to 20 years,
    b. Grace period up to 5 years, and
    c. Interest Rate (IR) shall orient on long-term development bonds (plus 2.5%). The IR will be determined and adjusted by the TDF corresponding to information obtained by the Nepal Rastra Bank every Year.
4) The GoN's Subsidy shall be as per the Grant Financing Policy of TDF OR Municipality has to meet the Viability Gap Financing to meet the financial viability gap seen as per the appraisal report. However municipality/local authority shall have a minimum of 10% of contribution from their own source.
5) RF sources shall not be used for Feasibility Studies (FS), Detailed Engineering Design (DED) and Construction Supervision (CS). The local authorities shall have three options: a) Hire study and/or supervision consultants directly and pay for those expenses from their own source; b) Receive Subsidy from TDF (as provided by GoN or other DPs) and hire study and/or supervision consultants directly; or c) Request TDF for hiring study/supervision consultants from the fund available to TDF through GoN or other DPs (if the local authorities do not have capacity and request to TDF): in general costs for FS, DED and CS do not exceed 10% of the overall project costs. Those costs shall be counted to the overall investment costs.
6) Projects shall be assessed with regard to their financial performance and shall create at least an Internal Rate of Return (IRR) 3.5% above the applicable interest rate of TDF.
7) Repayments of principals shall enter the RF. As per the provision mentioned in L/G Policy for TDPIII, the RF shall be converted into the Equity of TDF. However to convert the RF into equity, TDF shall determine the equity structure and receive concurrence from KFW.
8) Interest payments from clients shall be allocated as follows:
    a. 45% shall enter the RF,
    b. 20% shall be transferred to a Debt Service Reserve Fund (DSRF)
    c. 35% shall be allocated as revenues in the Profit & Loss Statement to cover administration costs of the TDF.
9) Terms and conditions for securing the repayment of loans need to be incorporated in the loan agreements in order to protect the interests of the TDF. These security mechanisms shall be as per the TDF's Act. These may include such as Escrow Accounts, Step-in-Rights, Collateral, Revenue Intercept, Debt Service Reserve Fund etc.
10) The Standard Operating Procedures (SOPs) of TDF attached herewith shall be the procedure for TDF financing. The Procurement Guidelines approved by PPMO as per the PPA and PPR of Nepal shall be the guidelines for the procurement of services, goods and works through the Revolving Fund. Local Authorities can also request the fund from RF for PPP projects and the projects through Users' Committees; however they have to follow the procurement process for such PPP projects as per the law of Nepal.

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