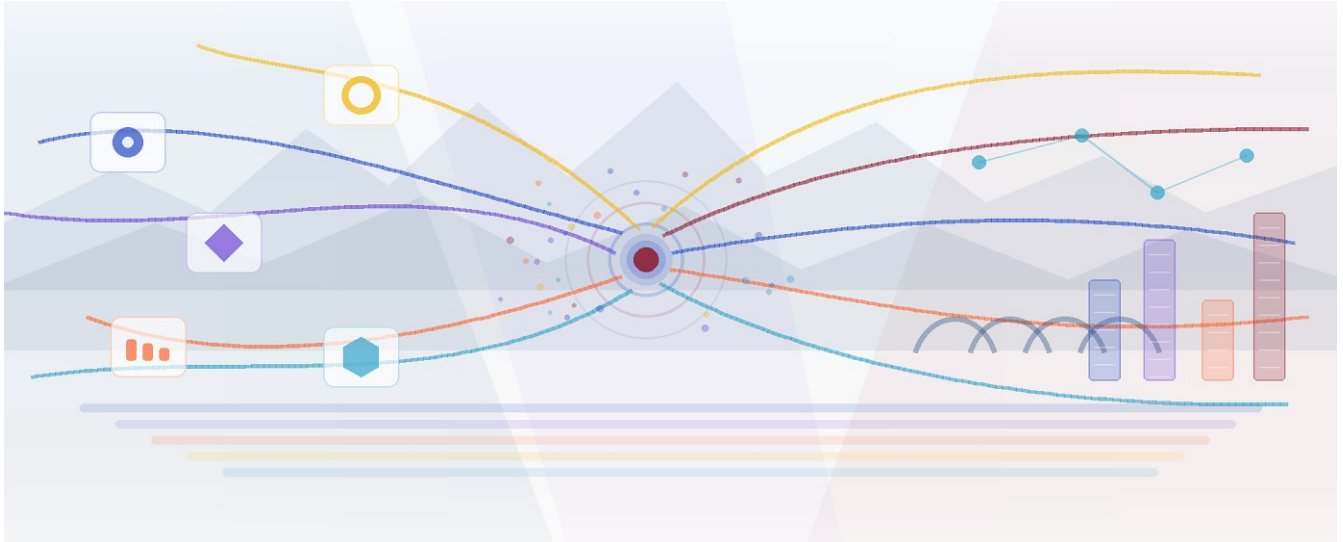




LEGAL UPDATE

Alternative Development Finance Mobilization Act 2083 (2026): Nepal's New Framework for Infrastructure and Project Financing

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EXECUTIVE SNAPSHOT

This Legal Update outlines the Alternative Development Finance Mobilization Act, 2083 (2026), which establishes the Alternative Development Finance Fund as a statutory platform for mobilising long-term capital for large infrastructure and productive-sector projects. The framework combines multiple financing instruments, institutional capital, guarantees and capital-market mechanisms, while leaving important implementation details to future Rules, procedures and Fund policies.

ALTERNATIVE FINANCE <i>The Fund may finance through equity, debt, blended instruments, guarantees, project-specific funds, remittance and diaspora structures, asset monetisation and other prescribed instruments.</i>	ELIGIBLE PROJECTS <i>Financing is directed to eligible sectors and national-priority projects. The Fund cannot invest in projects with an estimated cost below NPR 1 billion.</i>	FUND CAPITAL <i>The Fund has authorised capital of NPR 100 billion and paid-up capital of NPR 25 billion, with initial participation from the Government and major institutional investors.</i>
PROJECT APPRAISAL <i>Investment requires economic and financial appraisal, risk assessment, security for debt financing and project-level commitments on governance, environment and monitoring.</i>	SECURITY & CONSORTIUM <i>The Fund receives statutory priority over the same security granted later to another lender. Equal ranking is permitted where the Fund leads or participates in consortium financing.</i>	IMPLEMENTATION WATCH <i>Guarantees, foreign-market financing, fiscal incentives and several operating details will depend on future implementation. At the time of writing, separate Rules under the Act had not been issued.</i>

KEY TAKEAWAYS FOR BUSINESS

1 ASSESS <i>Confirm sector eligibility, project cost and the national-priority criteria before assuming access to Fund financing.</i>	2 STRUCTURE <i>Consider Fund equity, debt, blended finance, guarantees and project-specific instruments early in the financing plan.</i>	3 REVIEW <i>Examine existing security, intercreditor terms, refinancing restrictions and whether consortium financing is appropriate.</i>	4 COORDINATE <i>Plan for NRB, securities, foreign exchange and sector-specific approvals where cross-border financing or foreign issuance is involved.</i>	5 MONITOR <i>Track the Rules, Fund policies, guarantee procedures and fiscal incentives before relying on the framework for a live transaction.</i>
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Introduction

1. Nepal has enacted the **Alternative Development Finance Mobilization Act, 2083 (2026)** (the “**Act**”), creating a new legal framework for mobilising capital for large-scale infrastructure and productive-sector projects. The Act was authenticated on 11 Asar 2083 (25 June 2026) and, under Section 1(2), comes into force on the thirty-first day from the date of authentication. Hence, the Act has already effective. At the centre of the framework is the establishment of the **Alternative Development Finance Fund** (the “**Fund**”), an autonomous body corporate empowered to raise and deploy capital through a significantly broader range of instruments than conventional government budgetary financing or ordinary bank lending.
2. The Act contemplates financing through different securities. It also allows the Fund to access domestic and international capital markets and cooperate with public financial institutions, international financial institutions and private investors. For infrastructure developers, banks, institutional investors and public-sector agencies, the Act is significant not simply because it creates another financing institution, but because it establishes a statutory platform through which different sources of long-term capital may potentially be combined at the project level. Much of the commercial impact of the framework will, however, depend on the Fund becoming operational and on the Rules, procedures, investment policies and standards contemplated by the Act which are yet to be framed.

Overview of the New Framework

3. Section 3 of the Act establishes the mechanisms through which “alternative development finance” may be mobilised. These include project-specific financial instruments or debt securities, equity and debt, blended instruments, project-specific borrowing supported by guarantees, guarantee funds, investment funds financed by domestic or foreign investors, remittance funds, a **Sovereign Diaspora Fund**, asset monetisation and a fund-of-funds structure.
4. The provision also allows other prescribed financial instruments and permits the Fund to undertake co-issuance or cooperation with banks and financial institutions wholly or partly owned by the Government of Nepal. This gives the framework a broader function than that of a conventional lending institution. Depending on how the Act is implemented, the Fund may operate as a development-finance institution, investor, guarantor, fund manager, capital-market issuer and financial intermediary.

Key Provisions

Alternative Development Finance Instruments

5. The financing architecture under Section 3 is deliberately multi-instrument. Instead of relying exclusively on lending, the Act allows financing to be structured through **equity, debt or combinations of the two**, as well as specialised funds and project-specific instruments. Of particular interest are the provisions permitting remittance-based financing and a Sovereign Diaspora Fund funded through investment from non-resident Nepalis and persons of Nepali origin.
6. Asset monetisation is also expressly contemplated. This potentially provides a statutory route for converting infrastructure or other project-related assets into sources of financing rather than requiring all capital to be raised through fresh government expenditure or traditional credit. The breadth of Section 3 gives the Fund significant structuring flexibility, although the detailed mechanics of many of these instruments will require further regulatory and institutional development.



Eligible Sectors and Projects

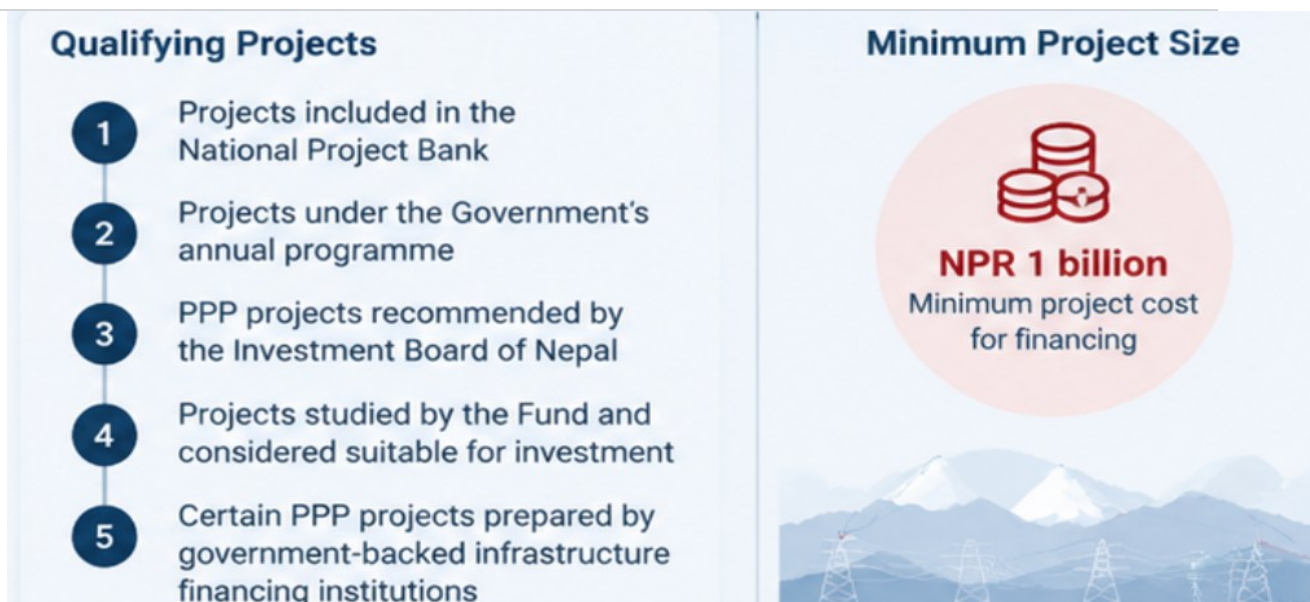
7. Section 4 identifies a wide range of eligible sectors. In the **energy sector**, these include electricity generation, transmission and distribution. Eligible **transport infrastructure** includes roads, railways, airports, tunnels, cable cars, ropeways and related infrastructure. The Act also covers special economic zones, industrial parks, dry ports, information technology parks, specialised tourism and sports infrastructure, urban infrastructure and public digital infrastructure. Other eligible sectors include irrigation, fertiliser and agricultural machinery manufacturing, water extraction and water-based industries, commercial agriculture and livestock production, agriculture and livestock-based industries, and forest-product and medicinal-herb processing industries.



8. Importantly, sectoral eligibility alone does not qualify a project for the Fund's financing. Section 4(2) further links financing to projects with national-priority characteristics, including:
- projects included in the National Project Bank;
 - projects proposed for implementation under the Government's annual programme;
 - PPP projects recommended by Investment Board of Nepal for implementation through the Fund;
 - projects studied by the Fund itself and considered suitable for investment; and
 - certain PPP projects prepared by government-backed infrastructure financing institutions.
9. The framework is therefore directed toward commercially and economically significant projects rather than being a general-purpose development subsidy programme.

Projects Excluded from the Financing

10. Section 5 imposes important limitations. Among other exclusions, the Fund cannot invest in a project with an **estimated cost below NPR 1 billion**. Projects expected to produce inadequate financial returns, projects incapable of providing security for the Fund's loan or guarantee, and projects implemented by natural persons are also excluded. The Act further contains conflict-of-interest restrictions relating to projects implemented by entities with which serving directors or the Chief Executive Officer had specified relationships during the three years preceding their appointment. These restrictions indicate that the statutory model is directed principally towards relatively large, financially viable and institutionally structured projects capable of undergoing project appraisal and providing adequate financing security.



Establishment and Capital Structure of the Fund

11. Sections 6 to 8 of the Act establish the Fund as an autonomous body corporate with perpetual succession and separate legal personality. Under Section 8, the Fund has:
- authorised capital of **NPR 100 billion**; and
 - paid-up capital of **NPR 25 billion**.

12. The initial shareholding structure is:

Entity	Shareholding Percentage
Government of Nepal	51%;
Employees Provident Fund, Citizen Investment Trust and Social Security Fund	Collectively 25%
Life insurance, non-life insurance and reinsurance companies	Collectively 24%.

13. The participation of retirement, social-security and insurance institutions is particularly relevant because it creates a statutory channel through which pools of long-term institutional capital may participate in development financing. The Act also permits shares to be sold to provincial governments, local governments, other government funds and international governmental or intergovernmental financial institutions, subject to the prescribed approval mechanism. In such cases, the Government's shareholding may be reduced, but not below **26%**.

Powers of the Fund

14. Section 9 gives the Fund extensive financial and institutional powers.
- a. The Fund may invest in infrastructure, issue bonds and other financial instruments, raise debt or equity domestically and internationally, list instruments in domestic or foreign capital markets, provide debt and equity financing, and establish project-specific funds.
 - b. It may also establish subsidiaries, co-invest with government-owned banks, infrastructure development banks or financial institutions, manage alternative development finance funds and provide project-development advisory services to public bodies.
 - c. With approval from Nepal *Rastra* Bank ("**NRB**"), the Fund may issue securities for listing in foreign capital markets and obtain financing from international financial institutions for specific projects, including hedging such borrowing where necessary.
 - d. The Fund may also act as a financial intermediary where an organised institution or project requires assistance in raising capital. Collectively, these provisions position the Fund as substantially more than a direct lender.

Project Financing and Appraisal

15. Sections 24 to 26 of the Act regulate how the Fund may invest. Section 24 allows investment through: equity; debt; a combination of equity and debt; specified guarantees; and other prescribed financial instruments. Debt investments by the Fund are subject to regulatory monitoring by NRB under Section 24(3).
16. Before investing, Section 25 requires the Fund to examine a project's economic and financial strength, potential for high returns, capacity to mobilise additional private investment, contribution to sustainable economic and social development, employment creation and use of advanced technology. A separate risk assessment must also be undertaken. For debt financing, the Fund is required to obtain appropriate security. Where ordinary security is insufficient, Section 25(4) contemplates taking the project as a whole as security. Section 26 additionally requires project-level commitments concerning environmental standards, corporate governance, risk analysis, market and cost-benefit assessment, and mechanisms for monitoring project returns.

Guarantees and Project Bankability

17. Section 27 introduces an important guarantee mechanism. Where financing for a project depends on a guarantee from the Fund, the Government of Nepal or an international financial institution, the project entity may apply to the Fund. Subject to statutory conditions, the Fund may provide a guarantee itself or recommend that the Government or an international financial institution provide a full or partial guarantee. Eligibility includes assessment of project returns and risk, recommendation from the relevant sector ministry, inclusion in the National Project Bank and, for qualifying PPP projects, recommendation from Investment Board of Nepal. For projects that are economically viable but difficult to finance solely on conventional commercial terms, a workable guarantee regime may materially affect **bankability, credit enhancement and risk allocation**. The Act, however, creates a mechanism for guarantees; it does not create an automatic entitlement to them.

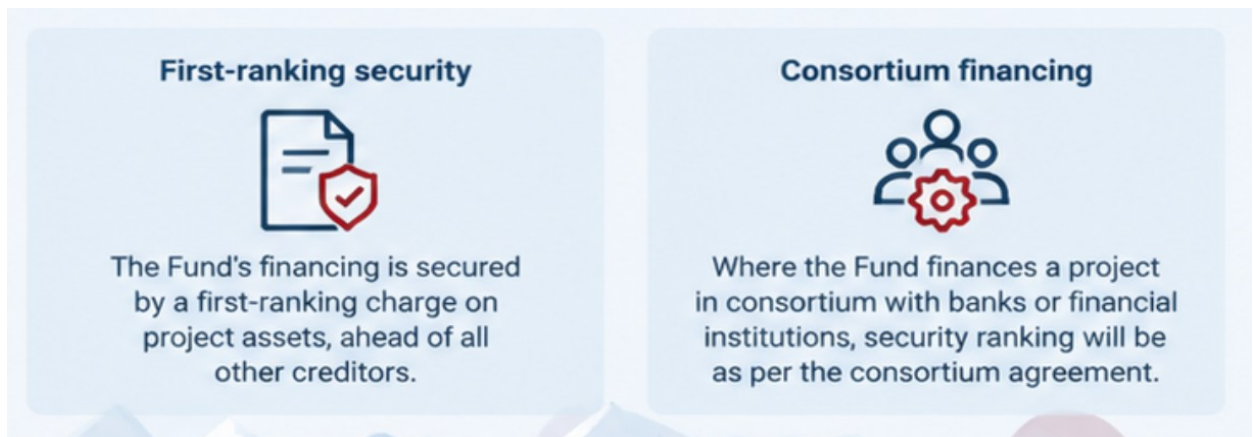
Default, Recovery and Project Control

18. Section 28 provides the Fund with strong remedies where financing conditions are breached. The Fund may demand repayment or suspend undisbursed investment where, among other circumstances, a project fails to comply with financing conditions, diverts funds, obtains financing through false information, fails without reasonable cause to implement the agreed project schedule, or defaults on amounts due in relation to another project financed by the Fund. Upon recall, principal, interest and applicable service charges become repayable.
19. More significantly, where repayment is not made, Section 28(3) allows the Fund, after completing the prescribed procedure, to **take control of the project**, recover its outstanding exposure and transfer implementation of the project to another organised entity. Project sponsors and lenders will therefore need to consider the Fund's statutory enforcement and control rights when negotiating financing, direct agreements and intercreditor arrangements.

Security Priority and Consortium Financing

20. Section 29 is likely to be one of the most commercially significant provisions of the Act. Where the Fund provides a loan or guarantee, movable or immovable assets, or the project proposed to be implemented, must be taken as security. Section 29(2) provides that, where a project subsequently grants the same property as security to another lender, the **Fund has the first right over that security**, and the subsequent creditor cannot assert its claim until the Fund's loan or guarantee exposure has been recovered. Section 29(3) goes further. An agreement, contract, commitment, arrangement or transaction contrary to that priority, purporting to give another person a competing first-ranking or equal-ranking (*pari passu*) claim, is rendered void.
21. There is, however, an important exception. Where the Fund leads or participates in **consortium financing**, all lenders may rank equally in relation to project security. These provisions will require close consideration in transactions involving existing project lenders. In particular, the Act may affect the structuring of:
 - intercreditor arrangements;
 - shared security packages;
 - refinancing transactions;
 - consortium lending;
 - security trustee arrangements; and
 - future additional indebtedness.

22. One issue requiring particular attention is the treatment of security validly created **before** Fund financing. Section 29 expressly addresses security created after Fund financing, but the extent to which existing priority arrangements will interact with the Fund's financing structure should be assessed transaction by transaction rather than assumed.



Capital-Market Instruments and Incentives

23. Section 30 provides preferential regulatory treatment for certain securities issued by the Fund. Debt securities issued by the Fund with a **Government of Nepal guarantee** are to be treated similarly to development bonds or citizen savings bonds issued by the Government, or debt instruments issued by NRB. Such instruments may be listed in the securities market and traded in the secondary market. Section 30 also facilitates listing and secondary-market trading of other financial instruments issued by the Fund.
24. Importantly for banks and financial institutions, investment in specified sectoral financial instruments issued by the Fund is treated as investment in the relevant directed lending sector for applicable banking-law purposes. The Act therefore seeks not only to create Fund-level financing capacity, but also to connect infrastructure finance with Nepal's wider securities and banking markets.

Tax and Transactional Incentives

25. Sections 31 and 32 provide a framework for fiscal and transactional incentives. The Council of Ministers may provide tax exemptions and other concessions under prevailing law to individual or institutional investors investing in financial instruments issued by the Fund. Special concessions may also be provided for instruments issued in foreign capital markets and instruments issued for green-sector projects. These are **discretionary enabling powers**. The Act does not itself automatically grant all such tax exemptions.
26. Similarly, Section 32 permits concessions in registration and related charges applicable to security documents, contracts and security interests taken by the Fund. The distinction between statutory authority to grant an incentive and an incentive that has actually been granted will remain important for transaction structuring.

Governance and Financial Accountability

27. The governance framework is set out primarily in Sections 10 to 23. The Board is chaired by the Secretary of the Ministry of Finance and includes government representation, representatives of institutional shareholders and two independent experts, at least one of whom must be a woman.
28. The Act contains qualification standards, conflict-of-interest rules, disclosure obligations and provisions making directors accountable for bad-faith or negligent conduct causing loss to the Fund. The Board may establish dedicated audit, investment and risk-management subcommittees. The Chief Executive Officer is appointed by the Council of Ministers from candidates recommended through a committee comprising the Chairperson of the Public Service Commission, the Governor of NRB and the Chief Executive Officer of Investment Board Nepal. The CEO is also subject to a performance contract and periodic evaluation. Sections 33 to 41 supplement this governance framework through separate accounting of different financial instruments and funds, reserve requirements, quarterly financial disclosures, consolidated financial reporting, internal control and final audit by the Auditor General.

Practical Implications for Investors, Lenders and Project Developers

29. **Infrastructure Developers and Project Sponsors:** For qualifying projects, the Act potentially creates financing options beyond conventional senior bank debt. A project may potentially access Fund equity, debt, blended financing, guarantees or project-specific capital-market instruments. Sponsors preparing large infrastructure projects should therefore consider Fund eligibility and financing structure at an early project-development stage rather than treating the Fund solely as a potential lender at financial close.
30. **Banks and Existing Project Lenders:** The security-priority provisions deserve particular attention. Banks considering co-financing alongside the Fund may find consortium financing structurally more attractive because Section 29 expressly allows equal ranking among participating lenders in that context. Conversely, bilateral financing involving the Fund may create more difficult priority and intercreditor questions. Existing lenders should assess the implications before consenting to additional Fund financing, refinancing or changes to existing security packages.
31. **Institutional Investors:** The statutory capital structure places retirement funds, social-security funds and insurers directly within the Fund's shareholder architecture. Beyond shareholding, the Act's use of bonds, specialised funds and other financial instruments may create further channels for institutional capital to participate in infrastructure financing, subject to the respective investment regulations applicable to those institutions.
32. **Foreign Investors and International Financial Institutions:** The Act expressly contemplates foreign borrowing, foreign capital-market issuance, international guarantees, joint ventures and investment cooperation with foreign investors and international financial institutions. These provisions could support more sophisticated cross-border project-finance structures. They do not, however, displace applicable foreign exchange, securities, foreign investment or sector-specific approval requirements.
33. **PPP Projects:** PPP projects occupy an important position within the statutory framework. The Investment Board of Nepal may recommend qualifying PPP projects for financing through the Fund, while its recommendation is also relevant to guarantees for PPP projects under Section 27. This potentially creates an institutional link between PPP project development, credit enhancement and long-term financing.
34. **Hydropower and Transmission:** Electricity generation, transmission and distribution are expressly included within Section 4. For Nepal's energy sector, where large projects commonly require substantial long-tenor financing and multiple lenders, the combination of debt, equity, guarantees, capital-market instruments and consortium financing may be particularly relevant. The practical significance will depend on the Fund's investment criteria, pricing, risk allocation and interaction with existing banking-sector project finance.
35. **Capital Markets:** The Act creates a statutory basis for bonds, debentures, blended instruments, foreign-market issuance and secondary-market trading. If implemented effectively, this could expand Nepal's infrastructure-financing model from one dominated by fiscal spending and bank credit toward greater use of institutional and capital-market funding.
36. **Issues to Watch as the Act is Implemented:** Several commercially important matters remain dependent on implementation.
 - a) First, the Act delegates substantial detail to future Rules, procedures, directives and standards. These will be important in determining project eligibility, appraisal procedures, guarantee mechanisms, specialised fund structures and investment terms.
 - b) Second, Section 29's security-priority regime will require careful coordination with existing secured-financing practices. The treatment of existing lenders, refinancing and shared-security arrangements may become particularly important as the Fund begins participating in live projects.
 - c) Third, the practical operation of guarantees under Section 27, including pricing, counter-guarantees, exposure limits and claims procedures, will be central to their usefulness as credit-enhancement instruments.
 - d) Fourth, foreign borrowing, hedging and overseas securities issuance will require effective coordination between the Fund, NRB, securities regulators and other relevant authorities.
 - e) Finally, the fiscal incentives contemplated by Sections 31 and 32 will have commercial value only to the extent that the Government actually exercises the powers granted by those provisions.
37. At the time of writing, no separate implementing Rules specifically issued under the Act have been issued. The position should therefore be monitored as the framework is operationalised.

Conclusion

38. The Alternative Development Finance Mobilization Act, 2083 represents an important addition to Nepal's infrastructure-finance framework. Its significance lies less in the creation of another public institution than in the range of financing tools that the new Fund is legally authorised to deploy.
39. The Act establishes a platform capable of combining government participation, institutional capital, commercial financing, capital-market instruments, international funding and project-level guarantees. Its provisions on consortium financing, project control and security priority also give the Fund substantial legal rights within financing structures. For project sponsors, lenders and investors, however, the legislation should presently be viewed as a **framework rather than a complete financing regime**. The practical availability, pricing and structuring of alternative development finance will depend on establishment and operationalisation of the Fund, subordinate legislation, project-selection policies, regulatory coordination and the manner in which the Fund exercises its statutory powers. Businesses and financial institutions considering projects potentially within the Act should therefore monitor the implementation framework closely and assess Fund financing alongside existing debt, equity, PPP and capital-market structures.

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