CASE STUDY

INDIA TAMIL NADU

URBAN DEVELOPMENT FUND

POOLED FINANCING

BRAD JOHNSON

Resource Mobilization Advisors
Tamil Nadu Urban Development Fund (TNUDF)

- Establish in 1988 to fund urban infrastructure projects
- Funding provided by World Bank sovereign loan to India - loan proceeds transferred to Tamil-Nadu State and placed in Fund. Also State budget funds
- In 1996 the TNUDF had extended loans to 75 Urban Local Bodies (ULBs)
- In 1996 was converted to a Trust with three private sector investors. 51% owned by State, 49% by private investors
- By year 2000 TNUDF had financed 177 projects in following sectors
  - Bridges and Roads 62%
  - Storm water drains 23%
  - Water supply 6%
  - Solid waste/Other 9%
Evaluation of Tamil Nadu Urban Development Fund

• Very strong management
• Effective project intake and evaluation procedures
• Low default rate - high portfolio performance
• Effective disbursement procedures and post project finance monitoring
• Double entry accounting and sound accounting practices
Goal of Financing

- Transition TNUDF from sovereign based funding to local capital base financing
- Prove that pooled financing can be implemented outside the United States
- Expand capacity of TNUDF to meet local government infrastructure needs
• $22.6m in non-convertible, redeemable bonds

• 5 years at 11.85% fixed. Rated AASO

• Balance sheet financing

• Bond Service Fund (BSF) equivalent to 1 year’s principal and interest payment pledged as collateral and placed with a trustee to cover defaults by local borrowers

• BSF replenished to extent required by drawing on current account of TNUDF
WB

INDIA

State of Tamil Nadu

Municipal Urban Development Fund

Private Sector Investors

TNUDF
51% GOTN
49% Private

Local Projects

Local Projects

Local Projects

Local Projects

5 Years
11.85%

$22 million Bond
• More traditional pooled financing
• Water and Sanitation Pooled Fund (WSPF) a special purpose vehicle incorporated under India Trust Act of 1882
• $6.2 million
• 15 years, 9.2% fixed
• First credit enhancement - escrow of revenues for ULBs and direct deductions to Adjacent Urban Areas (AUA)
• Second credit enhancement - debt service reserve fund equal (DSRF) to first annual debt service payment
• Third credit enhancement - replenishment of DSRF by Tamil-Nadu 100% interest and 50% principal- DCA 50% principal