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CASE STUDY

INDIA TAMIL NADU URBAN DEVELOPMENT FUND POOLED FINANCING

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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



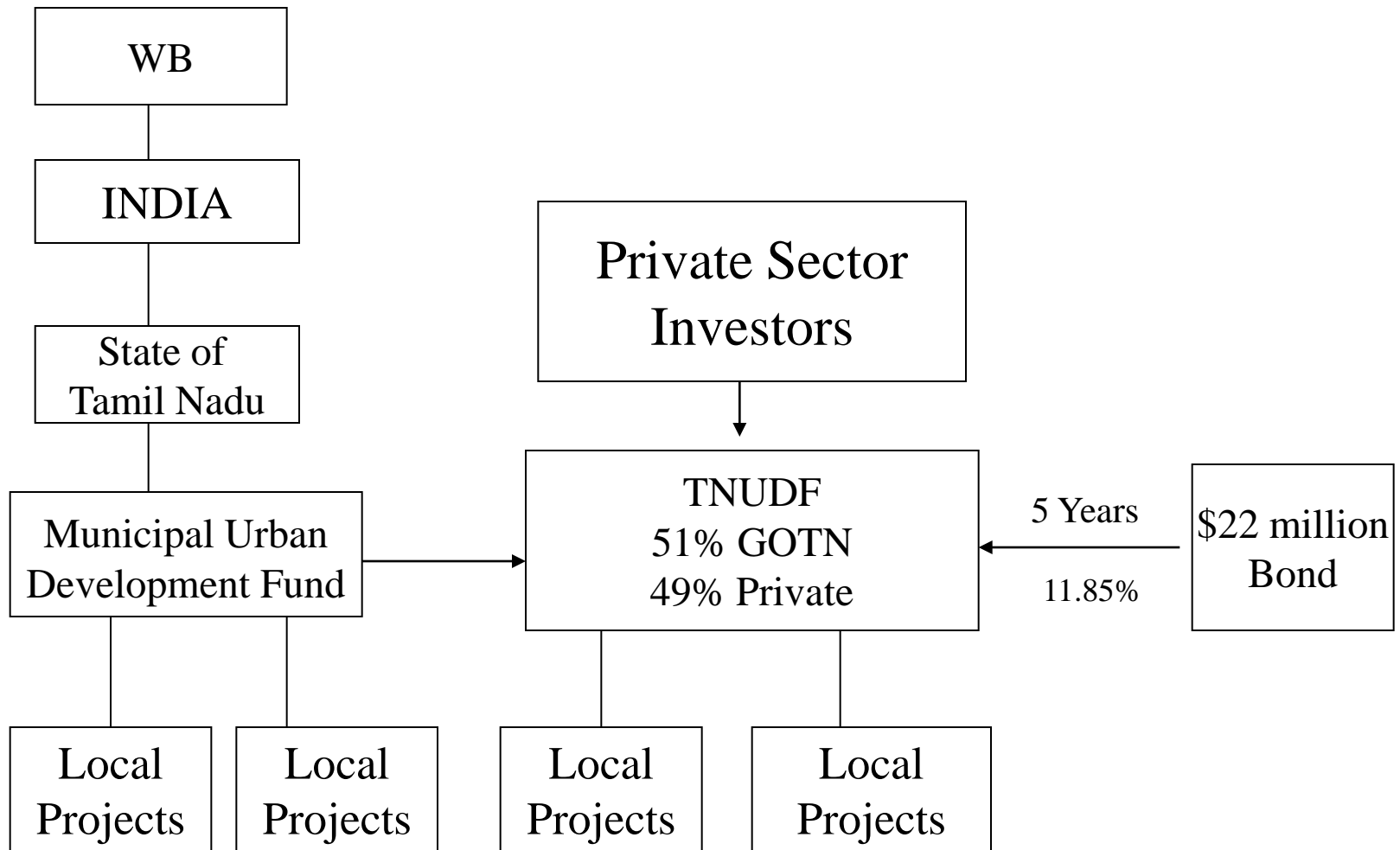
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TNUDF – First Financing September 2000

- \$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



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TNUDF – Second Financing September 2003

- 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



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