CASE STUDY

INDIA TAMIL NADU

URBAN DEVELOPMENT FUND

POOLED FINANCING

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Tamil Nadu Urban Development Fund (TNUDF)

- Established 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
USAID DCA 50% Principal → Go TN 100% Interest 50% Principal → Bond Service Fund 1st Year Debt Service → Revenue Intercepts → WSPF SPV Indian Trust Act or 1882 → Bonds $6 Million

15 years 9.2% fixed

Local Projects → Local Projects

Local Projects

Local Projects

Local Projects