

Tamil Nadu Urban Development Fund (TNUDF)

Infrastructure in the South Indian State of Tamil Nadu, one of the most thriving and largest of India's federal states, does not meet the demand of its increasing population and rapidly growing economy. Essential services such as water supply, sanitation, electricity, roads and public transport are inadequate. Neither state nor municipal budgets can shoulder the necessary investments for infrastructure development. Hence, the majority of infrastructure has to be funded by the financial system and the private sector. However, financing urban infrastructure is deemed too risky and costly for private financial institutions in India. Support from development banks is therefore necessary to make these investments "bankable" by reducing costs, shouldering some of the risk and developing new financing mechanisms.

Through KfW, the German Federal Ministry for Economic Cooperation and Development (BMZ) is supporting Tamil Nadu in mobilising private capital for local urban infrastructure and assisting capital market development in Tamil Nadu. In particular, KfW is strengthening the refinancing capacities of the public Tamil Nadu Urban Development Fund (TNUDF).

The TNUDF is designed to improve urban infrastructure of mostly small and medium-sized towns in Tamil Nadu. The project already serves as a model for similar funds in other Indian states.

The programme is providing a EUR 65 million loan to finance urban infrastructure investments at municipal level. In addition, it supports the establishment of a vehicle that will allow municipalities to pool bonds and access funds from the capital market. The TNUDF was established in 1996 as a public-private partnership fund owned by the Government of Tamil Nadu and three private banks. It has a track record as an innovative intermediary to foster increased participation of capital markets and the private sector in local infrastructure financing.



Results and impacts:

- Qualitative and quantitative improvement of urban infrastructure. For example, by 2012, a further 100 municipalities will benefit from a sewage system supported by the TNUDF. The incidence of waterborne diseases has already declined in Tamil Nadu since the establishment of the fund;
- Implementation of key aspects of India's decentralisation policy: strengthening the financial and administrative autonomy of the local governments concerned;
- Promotion of socially and environmentally sound municipal infrastructure through newly created public-private partnerships and joint ventures;
- Promotion of follow-up investment and hence local economic growth;
- Further development of India's capital market.

Duration: since 2008

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Federal Ministry
for Economic Cooperation
and Development

