



ABSTRACT

Implementation of KfW assisted "Sustainable Municipal Infrastructure Financing in Tamil Nadu" (SMIF-TN) Program at a total cost of Euro 77 Million (Rs.500.00 crores) through the Tamil Nadu Urban Infrastructure Financial Services Limited Chennai-17 - Administrative Approval – Formation of Empowered Committee - Orders – Issued.

MUNICIPAL ADMINISTRATION AND WATER SUPPLY (MA2) DEPARTMENT

G.O.(Ms.No.218

Dated: 3.11.2008

Read:

From the Managing Director & Chief Executive Officer , Tamil Nadu Urban Infrastructure Financial Services Limited, Chennai Letter No. TNUDF/KfW/2007, dated 7.8.2008

ORDER:

In the letter read above the Managing Director & Chief Executive Officer , Tamil Nadu Urban Infrastructure Financial Services Limited has stated that to improve the living conditions of residents in urban areas by constructing and improving water supply and sewerage facilities, Tamil Nadu Urban Development Fund (TNUDF) is providing long-term financial assistance to urban local bodies. In order to meet the increase in assistance to Urban Local Bodies, the KfW-German Development Bank has been approached for providing loan assistance.

2. After detailed discussion with the officials of KfW, Government of India and State Government, a loan agreement between KfW and Government of India has been signed on 09.07.2008 for Euro 77 million (Rs.500 crores) (1 Euro = Rs.64.947). The project execution period will be 5 years from the financial year 2008-09 to 2012-13. The size, terms and conditions of the project components are as follows:

- Long-term financing for urban infrastructure investments of Euro 65 million (or USD equivalent) repayable in 12 years (3 years grace period) at an interest rate of 4.05% p.a.
- Technical assistance grant of Euro 2 million has been earmarked as a technical assistance grant for capacity building at the level of TNUDF and for project advisory assistance.
- IDA loan for Master Financing Indenture (MFI) of Euro 10 million (or USD equivalent) repayable in 40 years (10 years grace period) at an interest rate of 0.75% p.a.

The funds received from KfW by Government of India will be passed on to Government of Tamil Nadu on a back to back basis. The loan has to be repaid by the State Government in Euro currency and the exchange risk is to be borne by the Government of Tamil Nadu.

3. The Managing Director & Chief Executive Officer, Tamil Nadu Urban Infrastructure Financial Services Limited has requested the Government to accord Administrative sanction for Implementation KfW assisted "Sustainable Municipal Infrastructure Financing in Tamil Nadu" (SMIF-TN) Programme at a total cost of Euro 77 Million (Rs.500 crores) .

4. The Government after careful examination, accept the proposal of the Managing Director and Chief Executive Officer, Tamil Nadu Urban Infrastructure Financial Services Limited and accord administrative sanction for implementation of the KfW assisted "Sustainable Municipal Infrastructure Financing in Tamil Nadu" (SMIF-TN) Program by Tamil Nadu Urban Infrastructure Financial Services Limited at a total cost of Euro 77 Million (Rs.500 crores) and also orders to pass on the KfW line of credit of Euro 77 million by the State Government to TNUDF /KfW Grant Fund-I / KfW Grant Fund-II /Water and Sanitation Pooled Fund on the following terms and conditions:-

i) Euro 45.50 million i.e. 70% Euro 65 million in the form of loan (Rs.295 crores) to be passed on to TNUDF. The rate of interest on loan to TNUDF will be linked to 10 Year Government of India bond (like TNUDF III).

(a) The rate of interest on loan to TNUDF will be at a fixed interest rate, set equal to the average yield of issues in the last six months of the 10 year Government of India (GOI) bond on the primary market (Index), but in the event that there is no such issue in the said six months period, the average yield of the 10 year Government of India (GoI) bond in the primary market immediately preceding one year from the reference date (date of release of tranche) shall serve as index;

(b) In the event that there is no issuance of the 10 year Government of India bond in the primary market during the last one year, the weighted average of the GoI bonds having a residual maturity of 10 years in the secondary market immediately preceding six months from the reference date shall serve as the index;

(c) Plus "margin," if any, to be mutually agreed between the Government and TNUDF and in any event the said margin not to exceed 100 basis points to be determined at the beginning of each fiscal year.

ii) Euro 19.50 million i.e. 30% Euro 65.00 million as capital grant (Rs.127 crores) to be passed on to KfW Grant Fund - I.

iii) Euro 2 million (Rs.13 crores) to be passed on to KfW Grant Fund-II as technical assistance grant for capacity building at the level of TNUDF and for project advisory assistance.

iv) Euro 10 million equivalent to about Rs.65 crores for Master Financing Indenture (MFI) to the existing entity of the Government of Tamil Nadu, Water and Sanitation Pooled Fund on back-to-back basis without adding a margin or charging any guarantee fees. The Government of Tamil Nadu will bear exchange rate risk and pass on the funds to the MFI as a subordinated loan denominated in Indian Rupee terms (i.e. repayment amount fixed in Indian Rupee) with a fixed rate of interest of 0.75% P.a. (the rate of interest charged by KfW for IDA loan).

The other terms like repayment period, up-front fee, commitment fee, management fee etc., will be on back to back basis.

5. The funds received under the KfW assisted projects will be passed on to the Local Bodies and other entities on the following terms:-

i) As Loan for the sub-projects approved by the Empowered Committee to the Urban Local Bodies through TNUDF at an interest rate considering the rate of interest as determined in para 4 above.

ii) As Capital Grant for the sub-projects approved by the Empowered Committee to the Urban Local Bodies through KfW Grant Fund-I set up by Government and managed and operated by TNUIFSL based on the guidelines issued by the Government.

iii) Grant to support the sub-project towards Technical assistance for capacity building at the level of TNUDF and for project advisory assistance will be met from the KfW Grant Fund-II to be set up by Government which will be managed and operated by TNUIFSL based on the guidelines issued by the Government from time to time.

iv) IDA loan for Master Financing Indenture to the existing entity of the Government of Tamil Nadu, namely, Water and Sanitation Pooled Fund.(WSPF).

6. The Government also hereby constitute an Empowered Committee for sanctioning, finalising the means of finance including the quantum of capital grants and according administrative sanction for the sub-projects to be funded under the KfW assisted "SMIF-TN Program" with the following composition:

1.	Hon'ble Minister for Rural Development & Local Administration	Chairman
2.	Principal Secretary to Government, Municipal Administration & Water Supply Department,	Member
3.	Principal Secretary to Government, Finance Department	Member

4.	Commissioner of Municipal Administration	Member
5.	Commissioner of Town Panchayats	Member
6.	Managing Director & Chief Executive Officer, Tamil Nadu Urban Infrastructure Financial Services Limited	Member & Convener

Based on the approval of the Empowered Committee, the Municipal Administration and Water Supply Department will accord Administrative Sanction for the sub-projects to be funded under the KfW assisted Projects.

7. This order issues with the concurrence of Finance Department vide its U.O.No158/JS(JV)/2008-1, dated 30.10.2008

(BY ORDER OF THE GOVERNOR)

K. DEENABANDU,
PRINCIPAL SECRETARY TO GOVERNMENT

To
 ✓ The Managing Director & Chief Executive Officer, Tamil Nadu Urban Infrastructure Financial Services Limited, Chennai-17.
 The Commissioner of Municipal Administration, Chennai-5.
 The Commissioner of Town Panchayats, Chennai-108.
 The Pay and Accounts Officer (East), Chennai-5.
 The Pay and Accounts Officer (North) Chennai - 108.
 The Accountant General, Chennai - 18.
 The Accountant General (Audit), Chennai - 18.
 The Resident Audit Officer, Chennai - 9.
 Copy: The Finance (MAWS/EAP) Department, Chennai - 9.
 The Finance (Loan & Advance) Department, Chennai - 9.
 The Municipal Administration and Water Supply (Budget / OP.II) Department, Chennai - 9

-Forwarded by Order/-

[Signature]
SECTION OFFICER