

**GOVERNMENT OF INDIA  
URBAN DEVELOPMENT  
LOK SABHA**

UNSTARRED QUESTION NO:1580

ANSWERED ON:09.03.2007

SETTING UP OF PFDF

Reddy Shri K. Jayasurya Prakash

**Will the Minister of URBAN DEVELOPMENT be pleased to state:**

(a) whether the Government has set up Pooled Finance Development Fund, which would enable urban local bodies to raise funds from the market on a sustainable basis to meet investment needs; and

(b) if so, the details thereof?

**Answer**

THE MINISTER OF STATE IN THE MINISTRY OF URBAN DEVELOPMENT ( SHRI AJAY MAKEN )

(a)&(b): Yes, Sir. The broad objectives of Pooled Finance Development Fund (PFDF) are to:-

(i) facilitate development of bankable urban infrastructure projects through appropriate capacity building measures and financial structuring of projects;

(ii) facilitate Urban Local Bodies (ULBs) to access capital and financial markets for investment in critical municipal infrastructure by providing credit enhancement grants to State Pooled Finance Entities (SPFEs) for accessing capital markets through Pooled Financing Bonds on behalf of one or more identified ULBs for investment in identified urban infrastructure projects;

(iii) reduce the cost of borrowing to local bodies with appropriate credit enhancement measures and through restructuring of existing costly debts; and

(iv) facilitate development of Municipal Bond Market.

For implementing Pooled Finance Mechanism, a State Pooled Finance Entity (SPFE) is required to be set up in each State. SPFE to be set up in the State could either be a Trust or a Special Purpose Entity, provided the Entity is only a pass through vehicle. The basic advantage of setting up of SPFE is that it would enable the ULBs to enter the bond market on a regular basis and take advantage of scaled up operations. Further, efficient SPFEs can generate fair degree of goodwill in the bond market and may be able to achieve much higher levels of efficiency in operations than individual ULBs. Most importantly, it would be able to hedge risks against much larger spectrum of activities than individual ULBs.

The Central Government would support SPFEs through the PFDF. Of the funds made available with the Central Government for PFDF, 5% would be utilized for project development assistance. Balance 95% would be utilized for contribution to the Credit Rating Enhancement Fund (CREF) to improve the credit rating of the Municipal Bonds to investment grade.