

**PROJECT INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

Report No.: AB963

<b>Project Name</b>	Urban Reform Incentive Fund
<b>Region</b>	SOUTH ASIA
<b>Sector</b>	Housing finance and real estate markets (75%);Sub-national government administration (25%)
<b>Project ID</b>	P088776
<b>Borrower(s)</b>	GOVERNMENT OF INDIA
<b>Implementing Agency</b>	
<b>Environment Category</b>	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD
<b>Safeguard Classification</b>	<input type="checkbox"/> S <sub>1</sub> <input type="checkbox"/> S <sub>2</sub> <input checked="" type="checkbox"/> S <sub>3</sub> <input type="checkbox"/> S <sub>F</sub> <input type="checkbox"/> TBD
<b>Date PID Prepared</b>	April 28, 2004
<b>Estimated Date of Appraisal Authorization</b>	June 30, 2005
<b>Estimated Date of Board Approval</b>	December, 2005

### 1. Key Development Issues and Rationale for Bank Involvement

In spite of rapid economic growth in India since the early 90's, services in Indian cities have lagged behind, and slums are proliferating rather than dwindling in importance. The share of urban dwellers living in slums has stayed constant at over 20% while the urban population grows. No city in India provides water on a continuous 24/7 basis, even though this condition is essential for assuring water quality and safety. Redressing the trend of stagnant or declining capacity to provide public services to the residents and employers of Indian cities is essential to maintaining the growth and improvements in the quality of life in India, especially the increasing proportion of the poor who live and work in cities.

Two key constraints, closely interrelated, must be addressed. First, resources for urban infrastructure are woefully inadequate; local government spending amounts to less than 1% of GDP. Second, a host of outdated and inefficient policies impede the development of vibrant real estate markets, and thus erode the base on which local governments typically rely to mobilize funding to support public services. These same policies impede the effective use of the scarce public monies currently available. The objective of this operation is to achieve substantive reform of those policies and promote stronger finances in Indian cities.

**Government Commitment.** The Government of India (GOI) has already taken several measures to begin removing these constraints. The most significant is the establishment of a central fund allocated to States on the basis of progress toward reform. Urban is a State subject in India, and as such, State level reform is the top priority. In the last three budgets, Rs. 500 crores (approximately \$100 million) has been allocated annually to an Urban Reform Incentive Fund (URIF). This fund disburses a pre-determined amount to each State that fulfills specified policy conditions. For the first tranche of URIF, these conditions are: (1) repeal of the Urban Land Ceiling and Regulation Act at the State level by Resolution; (2) rationalization of Stamp Duty in

phases to bring it down to no more than 5 percent by the end of the *Tenth Plan* period; (3) reform of Rent Control Laws to remove rent control so as to stimulate private investment in rental housing; (4) introduction of computerized processes of registration; (5) reform of property tax so that it may become a major source revenue of urban local bodies, and arrangements for its effective implementation so that collection efficiency reaches at least 85 percent by the end of *Tenth Plan* period; (6) levy of reasonable user charges by Urban Local Bodies (ULB), with the objective that full cost of O&M (operation & maintenance) is collected by end of the *Tenth Plan* period; (7) introduction of double entry system of accounting in ULBs.

All but four of the States and Union Territories have either signed or are in discussions to sign Memoranda of Understanding (MoU) indicating their commitments to reform. GoI requested this operation as part of the initiative to scale up infrastructure lending by the Bank. The proposed project will supplement the URIF program funding in order to enhance the effectiveness of the reforms and expedite the reform process. GOI's interest in making these reforms is evident in their adaptation of the URIF program since inception. State level commitment to reform needs to be assessed further in project preparation. The number of MoU's signed indicates broad interest, but commitment to more specific and monitorable reforms needs to be assessed further.

**Linkage to Country Assistance Strategy (CAS).** This project is to be included in the CAS currently under preparation. This inclusion reflects a response to GOI's request that the Bank have a stronger involvement in urban development. This operation is a key element in the broader effort at re-entry in the urban sector since it addresses directly the weak urban policy environment that has limited the productivity of investments in the sector in the past. The project specifically supports several CAS objectives:

- 1) support for fiscal reform
- 2) effective governance and decentralization
- 3) provision of adequate infrastructure.

This project supports the overall CAS thrust of providing Bank assistance to those States committed to reform. Moreover, the project will be explicitly designed to build consensus for reform in those States and on those subjects where commitment to action is weaker.

**Bank's Contribution.** This project supports and complements the efforts of other donors, and draws on the Bank's strength in the urban policy dialogue. The Bank has advised the central government on urban policy, and provided analysis on real estate reforms covering both the URIF program and a number of themes related to URIF issues. Our work in urban water also bolsters our capacity to add value in areas key to the URIF reform program.

## **2. Proposed Objective(s)**

The objective of this project is to provide States with incentives to undertake essential urban sector reforms. These reforms affect both the functioning of real estate markets in cities and the framework for resource mobilization in urban areas. As a result of the measures that States would take into the program, local governments would have more opportunities to improve their finances and capacity to provide services, and more incentives to do so. Monitoring would cover

both the measures that States take, and the response to those measures in ILBs, but conditions for release of funds would be based on actions taken by States.

The reforms taken under the project will: (1) improve the responsiveness of local real estate markets, (2) increase resource mobilization in ULBs through better cost recovery and improved local taxation efforts, and (3) provide more rigorous accounting of the management of public funds. As part of the preparation of the project, we will define both specific monitorable policy actions and expected outcomes resulting from those policy measures in those three areas. The Technical Assistance (TA) component of the project will support the development of systems to monitor outcomes, studies to evaluate policy impacts, and disseminate the lessons of experience across States.

### **3. Preliminary Description**

The purpose of this project is to enhance GoI's Urban Reform Incentive Fund providing incentives for reform in the States. This program already funds:

- 1) Performance-based fast disbursing budgetary support to reforming States on a grant basis. World Bank funds would add to this budgetary assistance.
- 2) In addition, the Bank would work with GoI to:
  - a. Establish monitorable reform progress indicators
  - b. Assist States in preparing reform proposals to access funding from URIF.
- 3) Technical Assistance to Ministry of Urban Development and Poverty Alleviation (MOUDPA) and States
  - a. Strengthening of MOUDPA to manage policy analysis, outreach to States, knowledge support to State reforms, and monitoring and evaluation of reform programs undertaken by the States.
  - b. Technical Assistance to participating States supporting the implementation of their reform programs.

**Design Options Considered and Rejected.** This project would support a government program providing budgetary support to reforming States. Different design options are still under consideration, including a Sectoral Adjustment Loan (SECAL) or an investment loan.

### **4. Safeguard Policies that Might Apply**

The project is classified Category C. The main environmental impacts of the policies supported under the project are expected to be positive. Potential negative social consequences of policy reforms are not expected to be significant, but preparation work will look into this question.

**5. Tentative Financing**

<b>Source:</b>	<b>(\$m.)</b>
BORROWER	100
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	300
<b>Total</b>	<b>400</b>

**6. Contact point**

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