



Government of India

Ministry of Urban Employment & Poverty Alleviation

Guidelines for Urban Reforms Incentive Fund

1.	Objective	To provide reform linked assistance to States so as to incentivise and accelerate the process of urban reforms identified by Government of India, Ministry of Urban Employment and Poverty Alleviation from time to time.
2.	Outlay and currency of the scheme	Rs. 500 crores per annum during the X th Plan. During 2003-04, outlay of Rs. 500 crores is available in the budget of Ministry of Finance under the Head "Initiative for Strengthening Urban Infrastructure".
3.	Basis for State wise allocation	Percentage of urban population of the State/UT to the total urban population of the country.
4.	Type of assistance	The year wise Additional Central Assistance (ACA)/incentives would be released as a 100% grant instead of 30: 70 or 90:10 (grant:loan) for both non-special category States and special category States Funds will be released by Ministry of Finance as additional Central assistance on the recommendations of this Ministry. For availing benefit under Urban Reforms Incentive Fund, State would be required to enter into a prescribed Memorandum of Agreement (MOA) with Central Government.
5.	Release of Instalments under URIF.	50% of the States' allocation for 2003-04 will be permitted to be released as incentive on the signing of MOA by the State Government for the agreed reforms areas as

		<p>signed for in the MOA/truncated MOA and balance 50% on achievement of prescribed milestones for 2003-04 as given in the Annexure to the MOA against each reform area separately.</p> <p>Releases for year 2004-05 onwards would be dependent upon the achievement of milestone(s) for that year as given in the Annexure to MOA for each agreed reform area separately.</p> <p>In case a State has already achieved a milestone prescribed in the Memorandum of Agreement even before signing of Memorandum of Agreement, or achieves any milestone before its due date, then the State would also be entitled to release of the incentive connected to that milestone which will be assessed by the Empowered Committee.</p>
6.	Ultimate use of URIF Funds by States	The funds under URIF would be utilized by the States only for Housing, Urban Development and Poverty Alleviation projects/schemes including filling of any gaps in the funding of such projects/schemes.

7.	<p>Reform Areas to be covered along with weightages</p> <p>(a) First Phase</p> <p><u>Reform Area</u></p> <p>i) Repeal of Urban Land Ceiling and Regulation Act at the State level by Resolution</p> <p>ii) Rationalisation of stamp duty in phases to bring it down to no more than 5% by the end of the Tenth Plan period.</p> <p>iii) Reform of Rent Control Laws to remove rent control so as to stimulate private investment in rental housing</p> <p>iv) Introduction of computerized process of registration</p> <p>v) Reform of property tax so that it may become a major source of revenue of urban local bodies and arrangements for its effective implementation so that collection efficiency reaches at least 85% by the end of 10th Plan period.</p> <p>vi) Levy of reasonable user charges by Urban Local bodies, with the objective that full cost of O&M (Operation and Maintenance) is collected by the end of 10th Plan Period.</p> <p>vii) Introduction of double entry system of accounting in urban local bodies.</p>	<p><u>Agreed Weightage</u></p> <p>10% of State's share out of URIF allocation</p> <p>20% of State's share out of URIF allocation</p> <p>20% of State's share out of URIF allocation</p> <p>10% of State's share out of URIF allocation</p> <p>10% of State's share out of URIF allocation</p> <p>20% of State's share out of URIF allocation</p> <p>10% of State's share out of URIF allocation</p> <p>A state will be allowed to sign a MOA containing less than all seven of the above reform areas. (This will be referred as a truncated MOA). In that case the releases (on the achievement of milestones) will be only for the agreed reform areas as signed for in accordance with the weightages given.</p>
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	<p>(b)Second/ Subsequent Phases</p>	<p>The Empowered Committee headed by Secretary (UEPA) has been authorized by the Government to add more areas of urban reforms in the second/subsequent phase of reforms to be called second/third generation reforms out of the following list:</p> <ul style="list-style-type: none"> <i>(a) Revision of bye-laws to streamline the approval process for construction of buildings, development of sites, etc.</i> <i>(b) Revision of municipal laws in line with model legislation prepared by the Ministry of Urban Development and Poverty Alleviation.</i> <i>(c) Simplification of legal and procedural frameworks for conversion of agricultural land for non – agriculture purposes.</i> <i>(d) Initiation of public private partnership in the provision of civic services.</i> <i>(e) Reduction in staff strength and revenue expenditure of ULBs.</i> <i>(f) Introduction of property title certification systems.</i> <i>(g) Introduction of independent regulators for urban services</i> <i>(h) Implementation of all Decentralized measures as envisaged in the 74th Constitutional Amendment.</i> <i>(i) Any other Urban Reform Area as identified by the Empowered Committee.</i> <p>The Empowered Committee under chairmanship of Secretary (UEPA) will operationalize these second/third generation reforms by prioritizing the reform areas, giving them weightages and by utilizing savings from first generation reforms, or grants from any other source.</p>
<p>8.</p>	<p>Format of Memorandum of Agreement (MOA)/truncated MOA to be signed by States</p>	<p>Enclosed as Appendix I. The specifics of reform (Annex 1 to the MOA), is to be read as part of the Memorandum of Agreement & gives the detailed milestones to be achieved in each reform area every year. . Annex II which is a statement indicating what steps State has already undertaken in the field of the agreed reform areas as contained in the MOA will be</p>

		signed by State Chief Secretary/ State Secretary(dealing with URIF) only.
9.	State-wise Allocation for 2003-04	As given in Appendix II.
10.	Role of Ministry of UEPA in URIF	Ministry of Urban Employment & Poverty Alleviation will recommend releases of funds under URIF to the Ministry of Finance on the achievement of milestones as assessed by the Empowered Committee.
11.	Empowered Committee	<p>An empowered Committee with the following composition has been formed to assess whether a State has achieved a particular milestone in a reform area before this Ministry recommends to Ministry of Finance the release of funds/incentive corresponding to that milestone and reform area:</p> <p>i) Secretary (Ministry of UEPA) - Chairman</p> <p>ii) Secretary(Deptt.of Expenditure)- Member Or his representative not below the rank of Joint Secretary.</p> <p>iii)Secretary (Planning Comm.) - Member or his representative not below the rank of Joint Secretary.</p> <p>iv)Joint Secretary (Ministry of UD) - Member</p> <p>v) Joint Secretary(Housing) - Member Secretary</p> <p>The Empowered Committee has also been authorized to operationalize the second/ subsequent generation urban reforms.</p>

MEMORANDUM OF AGREEMENT

BETWEEN

MINISTRY OF URBAN EMPLOYMENT AND POVERTY ALLEVIATION

AND

THE STATE GOVERNMENT OF _____

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This Memorandum of Agreement is made between the Ministry of UE & PA and the State Government of _____ to affirm the continued commitment of all parties to reform the Housing, Urban Infrastructure, and Municipal Sector in the State of _____ and to list out the reform measures which the Government of _____ will implement and the support that the Government of India will provide

PREAMBLE

WHEREAS Government of India, and the Government of _____ are agreed that the growth of housing, urban infrastructure and strengthening of the Municipal administration are key requirements for the growth of economy, and provision of high quality of services and amenities to urban residents is a necessity;

AND FURTHER that the urban sector is in need of reforms in order to provide an impetus to increased availability of land for housing, generate rental housing stock, simplify procedures and introduce more efficient ways in which property transactions are conducted, improve the resource base of urban utilities and municipal bodies in order to provide better urban infrastructure and improve on the availability of civic amenities;

AND FURTHER the Budget Speech of the Finance Minister for the year 2002-03 has set in motion initiatives for improving the viability of cities through measures such as the Urban Reforms Incentive Fund, which need to be implemented;

AND WHEREAS there is a broad agreement between the parties to this Memorandum of Agreement on the reform package to be implemented in the housing, urban planning and urban infrastructure, and municipal sectors,

IT IS THEREFORE AGREED BETWEEN THE SIGNATORIES TO THIS MEMORANDUM OF AGREEMENT AS FOLLOWS:

1. The State of _____ is committed to reform the Housing, Urban Infrastructure and Municipal Sector in order to
 - a) Provide good urban governance in the field of housing, urban infrastructure and municipal services,
 - b) Achieve viability and self-sustainability in providing various urban/municipal services and facilitate the orderly growth of the cities.
2. In order to attain the above objective, the State of _____, has already initiated **the steps as indicated in Annexure-II.**

3. This Memorandum of Agreement between the Ministry of UE & PA and the Government of _____, records the steps that the Government of _____, will take in due course and as quickly as possible to further the process of reform and restructuring and the support the Government of India will provide to the Government of _____.

REFORM PROGRAMME OF THE STATE OF _____

4. In the first phase, the State of _____, will take the following reform measures in regard to housing, urban planning, municipal resources, and urban infrastructure:

1. Repeal of the Urban Land Ceiling and Regulation Act at the State level by Resolution;(if not already done)
2. Rationalization of Stamp Duty in phases to bring it down to no more than 5% 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 of revenue of urban local bodies, and arrangements for its effective implementation so that collection efficiency reaches at least 85% by the end of 10th Plan period;
6. Levy of reasonable user charges by Urban Local Bodies, 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 Urban Local Bodies.

Other reform measures in housing, urban resources, urban planning, and infrastructure may be taken up in due course, by mutual agreement over the coming years.

5. Government of _____, further agree to initiate the reform process as early as possible and complete within a reasonable time frame; in any case not later than 2006-07.

SUPPORT FROM THE GOVERNMENT OF INDIA

6. To support reform programme of Government of _____, Ministry of UE & PA will extend the following support:

a) Subject to the State Government of _____, initiating the process of reforms . Central funds provided under the Urban Reforms Incentive Fund, as per allocation made to the State will be released in suitable tranches; depending upon the kind of reform measures performed by the States as per weightage for each reform. **(See Annexure-I)**

b) Wherever required, Model Laws/Rules and Regulations/Byelaws/Guidelines will be circulated and the State Government will implement the reform components in broad conformity with the said Model Laws/Rules and Regulations/Byelaws/Guidelines;

c) Assist in capacity building, and circulate model procedures and best practices in good urban governance.

IMPLEMENTATION

7. The key component of this MoA is the acceptance of the components of urban reforms listed in para 4 and further amplified in Annexure I and the implementation of the said components by the State and its agencies including the ULBs. The success of the scheme of Urban Reforms Incentive Fund wholly relies upon the implementation of the components as per this MoA.

8. Implementation of the MoA will be monitored on a quarter to quarter basis by the Ministry and Planning Commission, and will be placed before the Empowered Committee for consideration of release of instalments.

9. The MoA will be in force for a period upto 2006-07, i.e., the period of the 10th Plan, and will be subject to review annually.

10. Through this MoA all parties affirm their commitment to fulfilling the reform activities and achieving the objectives mutually agreed upon in this Agreement.

11. **Annexure I is to be read as part of this Memorandum of Agreement.**

Signed this day the

Chief Secretary/Secretary,
Dept. of Urban Development
Government of _____,
For and on behalf of
Government of _____,

Secretary/ Joint Secretary
Ministry of UE & PA
For and on behalf of
Government of India

ANNEXURE-I
ANNEXURE TO MOA

Urban Reforms Incentive Fund

- Specifics of Reforms to be carried out by States and milestones for release of incentives.

The Memorandum of Agreement contains acceptance of the States to undertake the reform measures. For the year 2003-04, the States' 50% share against agreed reform areas signed in the Memorandum of Agreement (i.e. state's allocation reduced by the weightages of reforms areas not agreed to in the Memorandum of Agreement) will be released on signing of Memorandum of Agreement; and balance 50% on the achievement of milestone for 2003-04 as given in this Annexure against each reform area separately. For purpose of release of funds, each reform areas has been given weightage as per table below:

Reform Area		Proposed weightage
Repeal of ULCRA	1	10% of State's Share out of URIF
Rationalization of stamp Duty	2	20% of State's Share out of URIF
Reform of Rent Control Laws	2	20% of State's Share out of URIF
Introduction of computerised process of registration	1	10% of State's Share out of URIF
Reform of Property Tax	1	10% of State's Share out of URIF
Levy of reasonable user charges	2	20% of State's Share out of URIF
Introduction of double entry system of accounting in Urban Local Bodies	1	10% of State's Share out of URIF
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Total	10	100%

Further to the MoA, in order to qualify for instalments of URIF funds for 2004-05 onwards the States will need to take specific measures. Release for 2004-05 onwards will depend on the following action for which each year's time table will be laid out and assessment made whether a State has carried out the reform or not by the Empowered Committee under Secretary(UEPA). This Committee would meet and layout each year's time-table which will be broadly as per indications below :-

1. Repeal of Urban Land Ceiling and Regulation Act: In the MoA, the State will undertake to repeal the ULCRA Act in totality.

Second 50% of the instalment for 2003-04 for this reform area will be released after the State confirms that the required resolution has been passed in the State Legislature and application of ULCRA Act in the State has been effectively abolished.

2. Rationalization of Stamp Duty: In the MoA the State will undertake to revise Stamp Duty rates so as to reach the level of no more than 5% by the final year of Tenth Plan, i.e., 2006-07.

To qualify for second instalment of 50% for 2003-04 for this reform area, the State Government should issue a Government Order/Resolution laying down the rationalization schedule, i.e., annual phasing of revised rates of Stamp Duty during the 10th Plan period (2002-2007), so that in the final year the Stamp Duty will reach the level of no more than 5% and also carry out the rationalization (i.e., Stamp Duty rate reduction) determined for 2003-04 as per schedule.

Action in the year 2004-05 and beyond: Release of URIF in subsequent years will be based on implementation of rationalisation schedule.

3. Reform of Rent Control Act: In the Memorandum of Agreement, the State will undertake to carry out a range of reforms in rent control commencing with legislative measures to ensure that new construction (i.e., buildings constructed on or after 1-4-2003), and any vacancy of any existing building occurring on or after the date of the signing of the MoA, will not come under the ambit of Rent Control or tenancy protection. States, which do not have a Rent control Act, will undertake not to introduce such a measure (rent control).

In order to qualify for the second instalment of 50% for 2003-04, the two measures to be taken are:

- (i) The required legislation should have been enacted and brought into effect in respect of new construction/newly arising vacancy as agreed to in the MoA;
- (ii) The State Government should have issued a Government Order/Resolution laying down the total policy of reform of rent control. The policy statement should include, in addition to the policy in respect of new construction or newly arising vacancy in an existing building as stated above, also the policy regarding existing tenancies. In respect of existing tenancies, the States will adopt the following in their policy:
 - (a) To remove ceiling on rent on existing tenancies, and to provide for rents to move to market rates,
 - (b) To fix time limit of three years for existing tenancies which do not have a proper written lease agreement between landlords and tenants,
 - (c) To restrict tenancies to the life-time of lessee,
 - (d) To permit possession on termination of tenancy without recourse to litigation,
 - (e) To create an Authority and provide guidelines to fix rents on the basis of market rates in respect of existing tenancies.

Action in the Year 2004-05 : the policy on existing tenancies should be brought into effect through appropriate legislative changes, in the year 2004-05 Release of URIF in future years will be based on implementation of the agreed schedule of reform in respect of existing tenancies.

4. Introduction of computerized process of registration: In the MoA, the State will undertake to introduce and bring into effect the computerized systems (similar to successful models such as Maharashtra and Andhra Pradesh) in regard to registration of documents. To qualify for release of 2nd instalment of 50% for 2003-04 and subsequent instalments , the State should have made substantial progress in this regard, as set/ assessed by the Empowered Committee under Secretary(UEPA) ,

including adoption of required amendments to Rules, and appointment of consultants/personnel, as well as action to develop software and procure hardware for the task of computerization.

5. Reform of Property Tax so that it becomes major source of revenue for urban local bodies, and arrangements for its effective implementation: In the MoA, the State will undertake to (i) remove all exemptions on Property Tax barring buildings actually and exclusively used for religious worship or running charitable institutions; (ii) by or before 31.3.2004, to adopt objective methods and transparent procedures of property tax assessment such as the unit area method or the capital value method, and self-assessment by property owners; (iii) to take measures to achieve total coverage of all properties under Property Tax assessment, and (iv) to achieve 85% collection efficiency by the end of Tenth Plan period and provide an annual target towards this purpose.

In order to qualify for release of 2nd instalment of 50% for 2003-04, the State should carry out required amendments to remove exemptions on property tax excepting those properties, which are used actually, and exclusively for religious worship and running charitable institutions and the State should have adopted assessment based on unit-area for which tax rates should be laid down for each urban area, or a capital-value based assessment system. However, where States have implemented an arrangement for determination of annual rateable value by an independent authority, the assessment system based on annual rate able value may continue.

Action in the year 2004-05 onwards: To qualify for URIF funds in the years 2004-05 onwards, the State will be required to ensure comprehensive coverage of all properties under the property tax net. Achievement of targets of collection efficiency for the year, which by end of 10th Plan period should be 85% of aggregate Property Tax assessment for the State, will be monitored from the year 2004-05 onwards of the scheme.

Monitoring: the States should report to the Empowered Committee under Secretary(UEPA), Government of India, the (1) aggregate Property Tax assessment of

the urban centers of the State at the time of signing of MoA; (1) the aggregate of Property Tax after exemptions are removed and comprehensive coverage achieved, by an agreed date, and (3) collection efficiency targets and achievements from year to year.

6. Levy of reasonable user charges: In the MoA, the States will agree to levy reasonable user charges, the target being to recover full Operation & Maintenance (O&M) costs of water supply, as well as any other service for which a specific user charge is being levied. This is to be achieved by the end of the Tenth Plan period, with an agreed annual target for monitoring progress in this direction. If a specific user charge exists for sanitation, street-lighting, solid waste management or any other municipal service, the recovery of the O&M cost of such service will also be included in the target and monitored. Monitoring of performance would be done at the aggregate level for the entire State.

To qualify for release of 2nd instalment of 50% for 2003-04, the following action will need to be carried out by the States:

1. The State should assess the O&M requirements of each town/city for water supply and arrive at the aggregate requirement for the State. As a rule of thumb the following may be adopted to assess the O&M cost of water supply schemes:

“ 12 to 15% of the capital cost of the water supply project subject to a minimum of Rs.200 per capita per annum (without any contribution towards debt-servicing) or Rs.350 per annum (with contribution towards debt-servicing)”. Cost of services other than water supply and sanitation will need to be assessed separately.

2. The State should ascertain total specific user charges, namely water charge or water rate, and sanitation/solid waste charges if any, being recovered in the State.
3. The State should determine the share of capital cost to be met through water tariff.

4. The State should, through an appropriate Government Order/Resolution specify annual revision of user charges so as to reach recovery of full cost of O&M by end of 10th Plan period.

5. The State should achieve the target set for 2003-04.(as laid out in 4 above).

Action in the year 2004-05 and beyond: The achievement of the user charge targets (i.e. actual recovery vis-à-vis the targeted recovery) in remaining years will be monitored for release of further instalments.

7. Adoption of double Entry system of Accounting in Municipalities:

In the MoA, the State will undertake to revise municipal accounting system to accrual-based double entry accounting.

To qualify for release of 2nd instalment of 50% for 2003-04 and subsequent installments, the State should report progress in adoption of the revised Accounts Manual, and training of personnel and computerization of municipal accounts. During 2004-2005, the Municipal Corporations and cities with over 3 lakh populations should be covered under the revised Manual.

Annexure-II

The State / Union Territory of _____ has already initiated following steps.

Principal Secretary / Secretary (UD)
Government of

For and on behalf of
Government of

APPENDIX-II

Allocation of Additional Central Assistance for Area Programme: "Initiative for Strengthening Urban Infrastructure"- 2003-04(AF) Urban Reforms Incentive Fund (URIF)

Name of State/ UT	% of Urban Popn in Total Popn.	Allocation (Rs in crores)	
1.	ANDHRA PRADESH	7.19	35.95
2.	ARUNACHAL PRADESH	0.08	0.40
3.	ASSAM	1.19	5.95
4.	BIHAR	3.04	15.20
5.	CHATTISGARH	1.46	7.30
6.	GOA	0.23	1.15
7.	GUJARAT	6.62	33.10
8.	HARYANA	2.14	10.70
9.	HIMACHAL PRADESH	0.21	1.05
10.	JAMMU & KASHMIR	0.88	4.40
11.	JHARKHAND	2.10	10.50
12.	KARNATAKA	6.28	31.40
13.	KERALA	2.90	14.50
14.	MADHYA PRADESH	5.64	28.20
15.	MAHARASHTRA	14.37	71.85
16.	MANIPUR	0.20	1.00
17.	MEGHALAYA	0.16	0.80
18.	MIZORAM	0.15	0.75
19.	NAGALAND	0.12	0.60
20.	ORISSA	1.93	9.65
21.	PUNJAB	2.89	14.45
22.	RAJASTHAN	4.63	23.15
23.	SIKKIM	0.02	0.10
24.	TAMIL NADU	9.55	47.75
25.	TRIPURA	0.19	0.95
26.	UTTARANCHAL	0.76	3.80
27.	UTTAR PRADESH	12.09	60.45
28.	WEST BENGAL	7.88	39.40
	UTS		
1.	NCT OF DELHI	4.49	22.45
2.	PONDICHERY	0.23	1.15
3.	A&N ISLANDS	0.04	0.20
4.	CHANDIGARH	0.28	1.40
5.	DADRA & NAGAR HAVELI	0.02	0.10
6.	LAKSHADWEEP	0.01	0.05
7.	DAMAN & DIU	0.02	0.10
	Grand Total	100.0	500.0