

GGBP Case Study Series

# Reform-Linked Funding in the Jawaharlal Nehru National Urban Renewal Mission in India

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Country: [India](#)

Sector(s): [Cities](#)

Key words: [India](#), [public investment](#), [infrastructure](#), [cities](#)

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Reform-linked funding is a critical mechanism for implementing the Jawaharlal Nehru National Urban Renewal Mission, aligning green growth priorities between national and local government.

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## Context

India's rapidly growing cities require urgent investment in infrastructure, including for housing, water and sanitation, waste, and transportation. Through the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the central government provides funding for public investment in infrastructure to 65 target cities.

However, alongside physical investment the government also identified the need for governance reforms at the local level. Twenty-three key reforms have been identified as a

priority, including reform of rent control, rationalization of stamp duty, publishing of plans, budgets and performance information by states, and handing over municipal responsibilities to elected urban local bodies (ULBs). Reforms for ULBs and parastatal agencies include the adoption of modern accounting systems and e-government, improvement in property tax collection, cost recovery through user charges, provision of basic services to the urban poor, and community participation in city development planning (Grant Thornton, 2011).

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## Approach

Rather than unilaterally mandating local government reforms, JNNURM invites states and local governments to enter into an agreement with national government to implement an agreed plan of mandatory and optional reforms, and to receive project funding for urban infrastructure and basic services.

The Ministry of Urban Development is the focal agency at the national level, together with the Ministry of Housing and Urban Poverty Alleviation. The national government provides 35-90 percent of the investment funding needed for approved projects, with grants given to state-level focal agencies and then disbursed to ULBs and parastatal agencies as grants, soft loans or a combination of the two. ULBs then have to raise additional funding, either from their own resources or other funding sources.

In order to access these funds, the relevant state, ULBs and parastatal agencies must reach an agreement with the national government, stating milestones for achieving agreed reforms over seven years. Twenty-five percent of project funds are released upon signing the memorandum of agreement, with the balance being released when the reform agenda milestones are met. Central government funding is available only for projects and not for implementation of the reform agenda itself.

In addition to funding, the national government provides guidelines, technical assistance, and capacity building support. A peer learning and knowledge sharing network has also been developed to enable peer-to-peer learning, experience sharing, and networking among cities.

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## Outcomes

Reform-linked funding resulted in major changes in urban infrastructure in India. By 2012, 554 urban infrastructure and governance projects had been approved, of which 139 had been completed and 415 were ongoing. These infrastructure projects require USD 9.7 billion of investment, of which USD 4.5 billion will be funded by the central government and USD 2.79 billion had already been released (MOUD, 2012). Projects address water supply (32.9 percent), sewerage (24 percent), roads and flyovers (14 percent), drainage (13.4 percent), mass rapid transit systems (8.3 percent), others (4 percent), and solid waste management (3.3 percent).

The Ministry of Urban Development reports that state-level reforms are 72 percent completed, ULB-level reforms are 54 percent completed, and 73 percent of optional reforms are completed. There is a range of progress among different states and ULBs. However, most have been able to implement all the 23 reforms, particularly those relating to city planning functions which hitherto has been the responsibility of the well-established line departments/parastatal agencies such as the Town Planning Department/Development Authority (Grant Thornton, 2011).

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## Lessons

JNNURM effectively integrates green growth policies at the national and subnational levels. Its success can be attributed to:

- Co-financing as incentive for reform;
- National leadership and demand-driven approach;
- Capacity strengthening of local governments.

However, several challenges remain. The design of the tripartite memorandum of agreement between the Government of India, the state governments and ULBs has raised some problems for ULBs. Despite having accomplished their own reforms they were dependent on the state's reforms in order to release agreed funds. This has resulted in delays in project implementation.

It has also been judged that the 'one size fits all' approach of demanding that all states and ULBs achieve 23 reforms within seven years regardless of their stage of development, capacity and financial status, was overambitious (Grant Thornton, 2011). For ULBs, several challenges were identified in reform implementation. These include the complexities relating to certain policy reforms (e.g. property tax and user charges for basic services), the challenge of implementing reforms together with projects, the weak capacity of ULBs, and the lack of funding for reforms. The next phase of the program is developing with greater emphasis on capacity strengthening (ICLEI, 2012; MOUD, 2012).

Even where projects are being successfully implemented and governance reforms are being undertaken, the delivery of urban services still needs to improve. This is being addressed with service level benchmarks being piloted in several states and ULBs.

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