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Urban Financing and Accountability Structures - Case Study of Bruhat Bengaluru Mahanagara Palike

Shankari Murali
S Manasi

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URBAN FINANCING AND ACCOUNTABILITY STRUCTURES - CASE STUDY OF BRUHAT BENGALURU MAHANAGARA PALIKE

Shankari Murali* and S Manasi**

Abstract

This paper examines the different financing arrangements of city governments and how they influence the accountability structures in Indian cities. The research focusses on the trends in financing of the Bruhat Bengaluru Mahanagara Palike, the single-largest urban local body in India. The paper reveals a pattern of financialisation of urban government in India, mirroring the global trends. It explores the requirement for different sources of finance and the conditionalities they impose on the city government. It also reveals the effects of the financialisation of urban government funding on the delivery of services provided to the residents, who are increasingly treated as customers rather than politically-empowered citizens.

Key words: Urban accountability structures, Urban studies, Urban citizen, Municipal finance, Financialisation, Bruhat Bengaluru Mahanagara Palike.

Introduction

City governments in India are complex and challenging area of local governance with the range and scope of issues which pose severe demands on the local administrators. The public financing and provision of civic services impose a stringent financial stress on the governments. This leaves the municipal bodies with no other recourse but to raise funds from whatever sources it can access, and at whatever terms they are available.

This paper examines the various municipal finance options and the conditionalities imposed by the financing agencies in order to analyse their effect on the public accountability of the local governments. The objective of this paper is to study the effect of differences in accountability structures based on the type of the funding agency and level, i.e. Public – Union/ State/ Local, Private, PPP, Aided.

The paper is divided into 7 sections. After this introductory section, the second section states the need for a robust and accountable urban local government, within the public finance and administration framework. The third section explores the devolution of the 3Fs of Funds, Functions and Functionaries, and the imperfect fiscal federalism due to incomplete devolution, which leads to deficits in both municipal finance and the physical and economic infrastructure. The fourth section outlines the different funding agencies which are required in the wake of this deficit and the conditionalities they impose on municipal governments. The fifth section delineates the Indian urban finance scenario of India, in terms of the concept of economic financialisation and the different manifestations of Value Capture Finance (VCF), which is defined as an innovative urban-development funding and revenue generation tool. This is seen in the larger context of the significant global trends in urban finance. The sixth section deals with the National Urban Policy Framework of the Government of India in terms of how it handles the critical issue of urban finance. The concluding section analyses the significant policy implications pertaining to urban finance and local accountability.

Municipal Governments and their Citizens

The need for a municipal government and its relevance to the urban citizens is the focus of this section. It is imperative to establish the need for the municipal government, its scope in terms of functional responsibilities and the means by which it funds its functioning.

The need for urban governments

The prevalent neoliberal paradigm of less government, at all levels – national, regional and local, requires a fundamental examination of the need for governments, including the local urban government. It is pertinent to note that even the neoliberal theoretical milieu is the local government which is most preferred or least criticised. (World Bank focused on Municipal governments from its initial forays into the Urban sector in 1972).It is due to the relative efficiency and comparative economies at different levels of government that each level enjoys certain advantages vis-à-vis its counterparts at other levels of government. The only government worth retaining in the era of Thatcher-Reaganomics (the neoliberal paradigm) of "Steer-not-Row"[1] was the local government. The Decentralisation theory, as propounded by the economists' trio of Arrow-Musgrave-Samuelson (AMS) and formalised into the Decentralisation theorem by Oates (1972), formed the theoretical basis of the neo-liberal manifesto of the IMF and World Bank in the form of the Washington Consensus. Economic and fiscal liberalisation, which was held out as the panacea for all the developing countries on the brink of economic collapse, in the 1990s and beyond, came coupled with shrinking governments and decentralisation.

The essential factors which form the *raison d'etre* of local governments and role performed by them are enumerated below:

1. Provision of civic services & infrastructure
2. Regulation of market failure and government failure
3. Accountability of public/ civic service providers to citizens
4. Lingering concept of Rural-Urban dichotomy

Citizenship in Urban India

Accountability is studied as a relationship between two sets of actors, therefore, there is a need to focus on both – not only the actors who are to be held accountable, but also those who they are accountable to urban Indian context is relatively less-developed than the identity of persons with their villages. Some of the features of urban citizenship are:

1. The urban citizens have not traditionally been involved in the affairs of the city due to weak local governments. The colonial tradition of weakening the local leaders has continued to be followed even by post-Independence national and state-level political leaders.
2. The traditional urban residents are increasingly being supplanted by migrants – both from other cities and towns as well as from the countryside. The 2011 Census of India shows the deepening of internal migration trends in urban centres, with 35% migration in the urban areas, against the 26% for rural areas of the country. Cities are increasingly the hubs of economic growth and development and this, along with the stagnation of the rural economy, is leading to "urbanisation of poverty" as outlined by Harris and Todaro (1970). Thus, the urban

populations are getting concentrated at the polar ends of the economic spectrum, extremely well-off and economically deprived.

3. There is a trend for migration motivated for economic reasons. These economic migrants continue to have strong cultural and emotional ties with their places of origin and they typically tend to participate in the political processes (casting their votes, at times en masse, with their own community) in their "*native*" place rather than the place of residence.
4. There are barriers to their enfranchisement in cities, especially for the newer residents and migrants.

There is a resultant situation of no obvious benefits for voting for the local leader coupled with the bureaucratic hassles in getting enrolled in the local electoral rolls, leading to a weak notion of citizenship, in urban India.

Funds, Functions and Functionaries and fiscal federalism

The real test of the effectiveness of a government in service delivery is through the study of its devolution. The 3 Fs of devolution are Funds, Functions and Functionaries, in that order. As this paper traces the devolution to local government based on the need for a government, the starting point is the reason for the government to exist – in terms of the Functions it provides to its citizens. Thereafter, it is easier to appreciate the need for the funds and the mechanism of the structures and functionaries through which the services are provided as Functions, Funds and Functionaries.

Functions

The Constitution in its Part IX A and 12th Schedule prescribes the functions / services to be provided by the city governments. Functions –wherein 18 functions are specified to be delegated to ULBs by the State governments. The Ministry of Housing and Urban Affairs has further specified 2 sets of functions to be performed by urban governments:

1. Obligatory-31 including basic infrastructure of water, sewage, public street, lighting, registration of births & deaths.
2. Discretionary-23 including construction of parks, orphanages etc., transport facilities, low-income housing, planting of trees on the roadside etc.

The actual functions devolved, in terms of activity mapping for the local governments (both rural and urban), depends on the 2nd tier of government, the State governments. This position of devolution of functions to the local bodies varies across different State governments.

Since the actual devolution from the States to the Local bodies are not complete in terms of the 12th Schedule and moreover, as there many Discretionary functions assigned to Urban Local Bodies (ULBs), the actual functions performed by the ULBs may not be in respect of all the 18 areas listed for them. In addition, many of the functions are actually assigned to specific parastatals of the State Government, as is the case in Bengaluru with the Bangalore Water Supply and Sewage Board (BWSSB) created for this function; Bangalore Electricity Supply Company (BESCOM) providing electricity to the city and other surrounding districts; the Bengaluru Development Authority (BDA) responsible for Town planning, land use and coordination with the BWSSB, BESCOM and other parastatals; and so on.

Functionaries

The requirement of sufficient functionaries is to discharge the devolved functions under the elected representatives. While over-deployment of manpower will adversely affect the efficiency of the bottom-line of cities, the full complement of manpower is required to ensure smooth discharge of the city's functions. This aspect has been studied in the context of the Bruhat Bengaluru Mahanagara Palike (Sivanna, 2012). The study shows that the Bangalore city administration has not been restructured or reviewed post-Independence. Therefore, the restructured, expanded Bruhat Bengaluru Mahanagara Palike suffers from an overworked workforce, outdated culture, ill-equipped to respond to the pressures of the rapidly-evolving urban-scape.

Funds

The term "accountability" is defined as *the relationship between a public actor and citizens to explain the actions undertaken in the public sphere, using the classical framework of public administration in India* for the purpose of this research. The cornerstone of accountability is the aspect of financial accountability, to the giver of the funds.

The requirement of a public agency to provide services to citizens has been established in the previous sections. However, this does not imply that the service will be owned, provided and regulated by the public agency itself. The neo-liberal world of minimum-government maximum-governance has imposed restrictions on the size and reach of public agencies, ostensibly to cut down on inefficiencies of production and delivery. This has spawned the entire spectrum of the Government - Private continuum as can be seen in Chart 1 below.

Chart 1: Private and Government Service Delivery/ Regulation Matrix

Problem areas	Private Ownership & Management with Government Regulation	Private Ownership & Management with Government Regulation &Subsidy for low income clients	Government ownership with Contracts for Private Management & Operation	Government Ownership & Government Management
Externalities			*	*
Information Asymmetries				*
Agency Problems	*	*	*	*
Distributional concerns		*	*	*

Source: Adapted from Blank 1999

The matrix in Chart1 above reveals that there should be government ownership and management only in cases where there are problems of externalities, information asymmetries, agency problems as well as distributional concerns. And, Government ownership with private contracts where there are other conditions but no information asymmetries. When both agency problems and distributional concerns are present, the matrix suggests private ownership and management with regulation and targeted subsidy. In case there are only agency problems, the matrix suggests only private ownership and management with government regulation.

In accordance with the matrix, it would seem appropriate that wherever there are issues of externalities (positive or negative), informational asymmetries, agency problems and distributional concerns, there should be government ownership and management. Most urban services would appear to attract all these 4 concerns, especially in the highly-economically polarised cities of India.

Reasons for imperfect fiscal federalism

This moot question is why the local governments appear to be financially distressed and why their priorities are determined by the funding agencies external to the government. The public economics theorists such as Arrow-Musgrave-Samuelson (AMS) have laid the foundations for effective financial decentralisation or fiscal federalism, which has been elegantly expounded by Oates (1972). It states that under the sufficient conditions, a pattern of local outputs in accordance with local tastes will be Pareto superior to any outcome centrally determined with a uniform level of output across jurisdictions (Oates 2006). However, the breakdown of this perfect theoretical alternative in the real world, most especially in the developing and transitional countries, was a revelation to the theorists. This breakdown was impelled by a number of factors such as the absence of the Arrow-Musgrave-Samuelson (AMS) perspective, which dwelt on the conceptualisation of the private and public sectors; the Keynesian framework of government as an agency to correct market failure, ensure equitable distribution of income and to promote macro-economic stability of high growth at stable prices; and to specify what services are public. The AMS perspective was built on the implicit assumption that the government would act as *custodian of public interest and maximize social welfare – both due to an innate benevolence and due to the more practical electoral pressures*.

In the neo-liberal, post-Washington Consensus world, all countries' governments, at all levels are shedding their welfare role, to treating the citizens as customers or clients. There are hardly any goods/ services which are recognised as public goods, with externalities. Even basic services such as drinking water, education, public health and sanitation are being treated as rivalrous[2], exclusionary goods, to be supplied to target segments of customers at profit or at least as close to market rates as possible. Moreover, for the federal, multi-level government setting, the First Generation Theory (FGT) of fiscal federalism was founded on the principles of assignment of functions (with appropriate fiscal tools) and tax assignment with equalising, lump-sum grants to local governments on equity and efficiency considerations. What was not factored into this technically sound Decentralisation theorem was the absence of any hard financial constraints on the local governments and the resultant perverse fiscal behavior which gets embedded in the system.

Types of Funding Agencies and Their Conditionalities

Different agencies provide funds to the ULBs. These range from the Governmental agencies at different levels giving Grants – conditional or general to international aid organisations to banks and private entities.

A listing of funding agencies is given below:

1. In terms of the government itself, there are 3 levels:
   - Central – this includes both the Central Sector and Centrally-Sponsored Schemes of Government of India being implemented within the cities.
   - State-funded schemes may complement/ supplement or totally differ from centrally-funded schemes, to reflect the States' priorities.
   - Local schemes/ projects are those which are entirely funded from the local government's own revenues.
2. Next are the Non-Governmental Organisations (NGOs) which in turn receive funds from other agencies, including the 3 levels of governments.
3. Grant/ Aid-funded organisations receiving closely-monitored grants from international and multilateral agencies are the next category, which may be working either in a particular sector or across sectors in a geographical area or both.
4. PPP the Public Private Partnerships are yet another type of funding, especially for large urban infrastructure development projects, which are capital-intensive and have long gestational periods. They have a range of models too – from Build-Operate-Transfer to Build-Operate-Own-Transfer to Build-Operate-Own.
5. Private funding is the end of the spectrum, where there is a purely private investment, owned and operated by the private sector company, with profit motivation. This type of funding is increasingly seen in a range of urban services, including "essential" services such as water supply, education, health, electric supply, among others. There is a reducing public-ness of public services with more and more services being privately provided.

   Each of these types of financing imposes its own sets of conditionalities on the funded projects.

Non-governmental funding

Unlike the past, where public funds were exclusively governmental funds, the neo-liberal paradigm offers many non-governmental options for funding the urban services. The urban centres are quite simply too big to be supported by their own revenues. The mismatch between the functions/ services to be provided by the city governments and their funds is extremely large. The tax sources devolved to the city governments are not sufficient for them. This is a classic situation of scarcity amidst plenty wherein the centres of economic growth are starved of their own resources. This also renders the city governments liable to comply with the conditionalities of the funding agencies and the agencies, including the higher levels of government to support them, without hard economic constraints[3].

Indian Urban Finance Scenario

Economic financialisation

The most notable development in financing infrastructure, especially large urban infrastructure, since the later decades of the 20^{th} century, has been the proliferation of innovative projects and local government financing options. The spectrum of these solutions is necessitated by the fact that the city revenues are grossly insufficient for governmental financing of these projects leading to a trend of Financialisation.

The term financialisation was brought into popular idiom by Krippner (2005) to refer to the increase in size and importance of a country's financial sector relative to its overall economy. She, in turn, relied on the definition offered by Arrighi (1994) as "a pattern of accumulation in which profit-making occurs increasingly through financial channels" rather than trade or manufacture. This definition, in turn, is based on the emergence of "shareholder conception of control" (Fligstein 1990, 2001). Krippner distinguished between the accumulation-based and the activity-based sectors and used 2 measures to substantiate her point:

1 The increase in Portfolio income- interest payments, dividends and capital gains; and,

2 The relative growth in financial sector vis-à-vis non-financial sectors.

Palley (2007) lists the principal impact of financialisation as:

1 the elevated significance of the financial sector relative to the real sector;

2 the transfer of incomes from real to finance sectors; and

3 the increase in income inequality which contributes to wage stagnation and adds to the risk of debt deflation and prolonged recession.

He also indicates that financialisation operates through three conduits:

1. changes in structure and operation of financial markets;
2. changes in behaviour of non-financial corporations; and,
3. changes in economic policy.

These trends towards financialisation have been replicated across the world, even in developing countries like India. The patterns of financialisation and its impact on Indian cities is discussed in the next section.

Financialisation in India

This trend of economic financialisation, reflecting global trends, is also in evidence in urban India. In India, the ULBs' own sources of revenue are from three sources:

- taxes levied by the municipality;
- user charges levied for the provision of civic services; and
- fees and fines levied for the performance of regulatory and other statutory functions.

Octroi, one of the sources of own revenue receipt of ULBs have been abolished, while property tax, remains underused. Even the costing of services of ULBs is being done by State Governments, even though these functions are mandated to be performed by ULBs under the 74th Constitutional Amendment. Overall, this has led to increased dependency on State Governments and reduction in efforts made by ULBs to mobilise resources. The global patterns of economic financialisation are clearly evident in the Indian economy as a whole, and in the urban areas, in particular. The major, and even the not so major, urban infrastructure projects are being financed through the non-public funds in these formats of Municipal Bonds, Green Bonds, and a whole range of finance options, referred to as Value Capture Finance Policy tools.

The global trends are being reflected and replicated in the real-world laboratories of the Indian cities. Municipal governments are either bankrupt or close to just survival. Their own sources of revenue are grossly inadequate to take up their capital-intensive infrastructure projects. Cities are being encouraged to borrow and leverage their assets through a range of innovative finance tools. Both the capital market and International Finance Institutions are extremely active in Indian cities.

In 2002 foreign direct investment (FDI) was allowed in real estate for socially-productive endeavors, such as a new township (of more than 100 acres), that provide the much-desired boosts in urban housing and jobs. The assumption was that the size would provide a safeguard and deterrent against speculation. This FDI presence was extended in 2004to Special Economic Zones (SEZs) to come up around cities with the Government providing land and services, such as roads, water, electricity, and, the additional incentive in the form of multiyear tax breaks. This led not only to a mushrooming of SEZs in the country, but to the “transmutation of these SEZs” into luxury-end residential real estate projects. This market is so attractive as to interest the world’s largest Private Equity (PE) Firms as the leaders in the urban financialisation in India. VCC Edge, a specialist, premium subscription-based research firm, has indicated that foreign PE firms entered the market immediately on its opening up in 2005, with $136 million. In the year 2013 alone, private equity firms invested more than $910 million in fresh capital with Blackstone and Xanders Group at the top. Blackstone invested $700 million in just two years (2012– 2014), amassing 24 million square feet of office space in Indian cities at a time when both office space costs and occupancy rates were low. In 2015, Blackstone became the largest owner of office space in India, and its main rival, the aggressive Wall Street firm Kohlberg Kravis Roberts (KKR), is trying to catch up, having invested more than $123 million in two realty projects since 2013. Meanwhile, India’s large real estate developers (DLF, Unitech, Supertech) have also stepped up their own efforts by taking on unsustainable debt in order to acquire large land banks with world-class, super-sized residential complexes for global buyers. The unsustainable boom went bust in the 2008 crash, when the other IFIs and FIIs had to retreat, only to be replaced by the big PE Firms in exchange for preferential treatment and guarantees of short-term exits. This speculative investments in financing the urban sector, has led to the terms such as “corporate urbanism” (Goldman 2010, Sood 2015) and “Speculative urbanism” Sood (2017). Meanwhile, as part of the ongoing research on FDI at the Institute for Studies in Industrial Development, Chalapati Rao and Biswajit Dhar (2018) have emphasised how FDI is neither an unmixed blessing nor is it homogeneous. They question if FDI is really investing fresh capital into areas of the Indian economy that will foster innovation, productive growth, and job creation as there is a great deal of blurring of foreign/ domestic and financial/ non-financial firms. Goldman (2015) raises another disturbing issue, that is the erosion of the significance and worth of labour in the creation of global Indian cities. He ascribes this to the convergence of a set of 3 factors in the past few decades: "the informalisation of labour, the making of global cities, and the financialisation of the economy." He quotes earlier research to highlight that "the four fastest-growing sectors in employment in urban India do not include the high-end sectors of IT engineering or finance; rather, they comprise domestic services (e.g., maids and drivers), construction, real estate, and restaurant and café work". This class of casual/ contract labour inhabit the slums (forming up to 30% of the population of Bangalore) and tend to remain at the peripheries of policy/ administration (Roychowdhury 2011).

Value Capture Finance (VCF)

Value capture finance is a type of public financing that recovers some or all of the value that public infrastructure generates for the landowners. Since land is the asset that is owned and managed by the States/ULBs it is the resource of choice to generate revenues. Traditionally, States/ULBs have relied on the direct sale of lands to raise funds, which is a less-efficient form of resource mobilisation, as it is one-time, compared to Value Capture. Increasingly, States/ULBs are using different Value Capture methods such as impact fee, betterment charges, etc. the major Value Capture tools[4] at the disposal of city governments are:

1. Land value tax– This is considered the ideal Value Capture tool to assess value increments in land. It also effectively checks spikes in property prices and reduces speculative investments. Many States have passed suitable laws to allow this mechanism to cover urban land.
2. Fees for changing land use (agricultural to non-agricultural) This mechanism raises revenues by realising fees on change in land-use and the value enhancements due to the changes in use typically to grant permission for conversion of land use from agricultural to non-agricultural use.
3. Betterment levy – This charge is levied as a one-time upfront charge on the land value gain caused by public infrastructure investment. This can either be a revenue source for overall development schemes in an area or be for specific projects. This Value capture tool has been used by many Indian ULBs – Mumbai, Hyderabad and even in the BBMP areas. In the expanded BBMP area, the former rural areas had to be provided piped water supply (from the far away Cauvery river, the source of water to the city on a plateau), and betterment charges were levied towards the cost of laying pipes to the residents desirous of getting water connections. Ranganathan (2014) has studied this and concluded that "*far from reflecting an internalisation of a 'willingness to pay' or 'stakeholder' ethos celebrated by development practitioners today, payment for water provides an insurgent means to bargain for greater symbolic recognition, respectability and material benefits from the state. In particular, payment for pipes enables peripheral dwellers to strengthen their claims to secure land tenure in an era of exclusionary and punitive spatial policies. Payment thus comprises a terrain of contested meaning-making and political struggle, at the heart of which lie the stakes of urban citizenship*."

4. Development charges (Impact fees)– These charges are localised, area-based linking the charge to the market value of land through regular, periodic revisions. This Value capture tool is extensively used in many States like Andhra Pradesh, Gujarat, Maharashtra, Tamil Nadu and Madhya Pradesh.
5. Transfer of Development Rights (TDRs) – this tool is used for trading development rights over an area. TDRs seek to preserve the basic appreciation of the value of the area due to infrastructure development, even as the project-based value captures the appreciation of land and building values in the area of influence of the project. Maharashtra, Karnataka and Gujarat have enabling laws for using TDRs for developing open spaces, promoting affordable housing, etc.
6. Premium on the relaxation of rules or additional Floor Space Index and Floor Area Ratio(FSI &FAR) – This tool permits development rights over and above the permissible limits specified in the State Town Planning Laws and Regulations. It is popular in States such as Maharashtra, Karnataka, Gujarat and Tamil Nadu.
7. Vacant Land Tax (VLT) –This is a tax on vacant plots of land. Andhra Pradesh has imposed this in the Greater Hyderabad Municipal Corporation (GHMC) at the rate of 0.5% of the registration value if the land is not used exclusively for agriculture purpose or kept vacant without a structure.
8. Tax Increment Financing (TIF) – TIF is a common Value Capture tool in developed countries. In TIF, the incremental revenues from future increases in property tax or a surcharge on the existing property tax rate are ring-fenced for a defined period to finance some new investment in the designated area. TIF tools are especially useful to finance new investments in existing habitations. Some of the SMART City Proposals have incorporated TIF as a finance tool.
9. Land Acquisition and Development –This tool involves the large-scale acquisition of land by the city government to be developed in stages. The two major examples of this in the BBMP vicinity are – the Bangalore-Mysore Infrastructure Corridor and the development along the axis towards the Devanahalli airport.
10. Land pooling System (LPS) – This tool of LPS is gaining a lot of popularity among city governments wherein they procure and pool the land parcels of different owners to develop it with good infrastructure. The owners exchange their low-quality lands for smaller parcels of developed plots. This has been used in Ahmedabad to develop the surroundings as well as in the new capital city of Andhra Pradesh, Amaravati.

A comparison of the enabling legal and regulatory provisions in Karnataka reveals the following position as seen in Chart 2.

Chart 2: Value Capture Financing Status in Karnataka

Provision	Compliance
Urban Land Tax	Yes
Tax on Conversion of Land	Section 18 - KTCP Act and Rates prescribed by Karnataka Planning Authority Rules 1965
Betterment Levy	Bangalore Development Authority Act 1976
Development Charge/ Impact fees	Section 18 A - KTPC Act- for value-based; Area-based also levied
TDR & Incentive FSI	Section 14B - KTCP Act
Premium on Relaxation of Rules or Additional FSI	Zonal Regulations of Mangalore 2011
Charge for Regularisation of Unauthorised Development	Akrama-Sakrama Scheme[5]
Vacant Land Tax	No specific provision
Town Planning Scheme	Karnataka Town and Country Planning Act 1961

Source: VCF Policy Framework, Ministry of Urban Development GoI Feb.2017

Other global urban finance innovations

Other new financial products, like the so-called 'pay for success bonds', or 'social impact bonds', are also being added to the pool of urban financial tools. A few examples of such tools[6] are given below:

1. The Massachusetts Roca program is aimed at avoiding criminal recidivism, which is the tendency of a criminal to return to crime. The bond created a risk-bearing financial arrangement between public, private, and non-profit organisations, with the state to repay the investors their principal, and a sliding scale of profit tied to the degree of success. (The state is willing to do this because keeping people out of prison saves the state money.) If Roca is unsuccessful, the investors could lose some or all of their money. The governments have issued social impact bonds for social, economic and environmental causes, and in many places underwriters have been large investment banks or in some cases state-level “municipal bond banks” (e.g. in the US and Canada), or national level “specialised lenders for regional and local governments” (e.g. in the Nordic states).

2. Similarly, another innovation is Sidewalk Labs, a Google-backed company with the largest pool of capital in the world focused on urban innovation. In 2016, they launched free WiFi kiosks across public areas in New York City, to access some municipal services and in effort to make the fastest public WiFi in the world freely available, with the stated benefit of reducing their spend on data plans. This Wifi network project would be delivered at no cost to taxpayers, and was set to generate more than $500 million in revenue to the city during the first 12 years. In this innovative urban technology project utilising old telephone booths, the idea has been for revenues to be generated in large part from advertising. There are also a number of Urban real estate-based finance options. Urban real estate has been the subject of Pooled Finance Development Fund Schemes (PFDF). These ‘first-loss-like’ schemes, backed by corporate partners, enable Government authorities to provide credit enhancement facilities to Urban Local Bodies (ULBs) based on their credit worthiness. In result, ULBs can access further market borrowings through state-level pooled mechanism; and as such, can have further resources to improve urban infrastructure and ultimately attain the goal of self-sustainability. Pooled finance projects attract corporates to sponsor municipal infrastructure projects. Examples are: the Mexican company CEMEX, a market leader in pavement

construction model with local citizens also as shareholders; and, Colombian Metrovivenda project, in Bogota. The basic strategy is to acquire, through the negotiated purchase of privately-owned open space in suburbs, to create large assemblages of improved infrastructure – planned and parcelled – to sell to experienced developers for the construction of market-rate housing which is affordable to varying levels of low-income families. The sale of parcels makes funds more readily available for investment in subsequent rounds of acquisition and development. In Honduras and Ghana, municipal governments have collaborated with US and local software companies to address inefficiencies in land administration to build next generation, more transparent land registration, title, and payment management solutions. These platforms use block-chain technology to track assets, payments and administrative processes to bring accountability and trust into land investments. The citizen portal allows users to manage their properties and interact with the local real estate markets in real-time. In many cases, the first projects of these platform companies are to first digitize the land cadastre(asset identification), before the platform could become a revenue-generating entity.The public sector has historically been the key financier of urban transportation infrastructure, but new private sector-led models for financing "public" transportation are cropping up around the world. Mexico City's The Avenida Chapultepec project is an interesting example of innovating urban transport infrastructure financing. Mexico City's Government will also receive a small percentage of the yearly income. Chapultepec Avenue, in the heart of Mexico City, will evolve to become a three-level linear park, incorporating public and private transportation, pedestrian and retail areas.

The Specialist Financiers - International Financial Institutions (IFIs)

These institutions, originally the Bretton-Woods institutions, set up in the post-World War II era to deal with reconstruction and economic development in developing countries, are now the major lenders for urban development infrastructure projects. In addition to the IMF and the World Bank, they include other institutions such as the Asian Development Bank (ADB), Kreditanstalt für Wiederaufbau **(**KfW), Japan International Cooperation Agency (JICA), among others. These institutions now contribute $30 billion of lending directly to urban projects annually. They are involved with finance and knowledge-sharing. Increasingly, these global lenders are likely to be replaced by the global capital markets, which are directly reaching out to city governments. On their part, these IFIs require cities to become more coordinated, which require significant changes like strong leadership, effective long-term planning and strengthening both engineering and financial sectors they also require fiscal flexibility and fiscal decentralisation. Additionally, there is a need to reinforce the relationship of accountability between the cities and their citizens. Cities will have to remove sectoral boundaries and set-up inter-sector implementation and review mechanisms.

National Urban Policy Framework[7]

In the context of bankrupt municipal bodies, pledged city assets, inadequate internal revenues, coupled with tremendous demand for capital-intensive urban infrastructure (to be paid for by stakeholders who would like to maximize their assured returns), it is important to examine the national policy framework. The Draft National Urban Policy Framework has been developed by the nodal ministry in Government of India and lists the following changes to be brought about:

Legislative and Policy Changes

- All States to set norms for cities to meet their revenue expenditure from own revenue and minimum proportion of budget to be earmarked for capital works.
- Insert a 'Local Bodies Finance List' (LBFL) along the lines of the Union List and the State List
- Central Finance Commission (CFC), Central Government should provide guidance on the devolution on certain criteria.
- State Finance Commissions (SFCs) should be set up in time so that CFC has their reports for consideration in preparation of its recommendations.
- Strengthen SFCs by improving their capacity, and ensure that the state governments accept the recommendations of SFCs with suitable local modifications.
- All States must have a clear policy /law/guideline for PPP.

Revenue Mobilisation Plan

- The base for property tax should be comprehensive and uniform across property classes without individual exemptions.
- Information technology should be used for GIS mapping and linking departments, such as revenue and town planning.
- Profession tax should be collected and fully retained by the ULBs. In cases where the State Governments collect profession tax, the proceeds net of administrative costs should be entirely devolved to the ULBs.
- The user charges should be so structured as to at least meet the operations and maintenance cost of running the service.
- The Value Capture Finance Framework should be implemented by all the States and cities.
- ULBs who have been credit-rated should implement revenue enhancement plans.
- Guidance and technical assistance to be provided for the issue of bonds and introduction of PPP.
- State government clearances for ULB borrowing should be based on agreed principles and not on an ad-hoc project basis.
- Incentivize cities to invest in low-emission, climate-resilient infrastructure; encourage project preparation for mitigation and adaptation projects; and collaborate with local financial institutions to develop climate finance infrastructure solutions for cities, also known as green bonds.

- Improve procurement and contracting so that expenditure growth can be contained within targeted levels.
- There should be improved accounting system based on double entry and accrual system leading to better financial management and transparency. ULB accounts should be regularly audited, as is being done already in some States.

Analysis of the Significant Findings

The major takeaways from this study of the financial arrangements and the accountability structures they impose are as follow:

Neo-liberal paradigm

The neo-liberal paradigm has ensured that the relationship between providers of public services (whether they be public or private agencies) and their target group is different from the earlier relationship as per the public administration paradigm. The clear expectation that public services will be provided by the local government do not hold true. This is due to the multiplicity of agencies and parastatals involved in the service provision. Many of these service providers are not even in the public sector and therefore, the concept of public accountability does not apply to them.

Decreasing public-ness

The concept of non-rivalrous, non-excludable public goods is increasingly diluted. With the emphasis being placed on urban entrepreneurialism rather than even urban managerialism, (Harvey 1989), traditional relationships of accountability have changed dramatically. As Stiglitz (1989) has noted, "public management" is itself a public good, and one that is often hard for voters to easily observe. This lack of public-ness is most evident in critical social infrastructure areas such as education, health and social welfare. There are hardly any resources created or earmarked for the economically-disadvantaged migrants who pour into Bengaluru. While educationists prefer to focus on municipal schools as the benchmark of accountability and service delivery, BBMP has not constructed new schools in the 10 years after the incorporation of the 110 new villages In terms of public health, the situation is more dire. Bengaluru is covered by the Centrally-funded National Urban Health Mission. However, the city does not have a network of even Primary Health Centres or even enough community health workers (ASHAs). This lack of public-ness, to instill public welfare, is also seen in the developmental physical infrastructure such as street lights and roads. The roads and lanes are potholed, the pavements are encroached, they are unlit and unsafe for both pedestrians and motorists. Even the most "public" of public services, law and order, is increasingly outsourced to specialist private Security agencies. (Goldman 2015)

Local bodies need external financial help to manage their affairs

The financial dependence results in a major challenge faced by the city governance in terms of unbridled interference by the State government in all the administrative, financial and political decisions of the city. In fact, there are also a lot of interventions from the Union government as well, especially in the form of conditionalities of reporting compliance to their reform agenda for the release of central grants. The absolute lack of autonomy means that the local priorities are sacrificed at the altar of the bigger levels of governments. Sitting on top of one of the most dynamically growing cities, the BBMP is like a poor big rich city. It is unable to raise its resources from the rich sources of local taxes. This is the classic case of Vertical Fiscal Imbalance. The financialisation of urban infrastructure funding is the viable option, especially when the users are unwilling to pay by way of user-fees or taxes. The former (smaller) city of Bangalore was the first in the country to raise funds to the tune of Rs. 125 crores through the issue of municipal bonds in 1997, guaranteed by the State and supported with an Escrow account, linked to State grants and Property tax collection, to build the city roads and drains. Over the years, the expansion of the city and the incorporation of major revenue earning sections of the city should have led to an overall improvement in the city's finances. However, the city finds itself heavily indebted and unable to carry out most of its basic activities, including payment of salaries to its sanitation workers (pourkarmikas). The situation of outstanding dues to its contractors was so alarming that they had even set up a special system of fast-tracking the payments to contractors[8]. The pervasive malaise in the city's finances, coupled with the delays in preparation and presentation of the annual audited accounts and the mortgaging of the city's properties including the City Town Hall itself (Table 1 below), to the bankers, led to the city being given a BB rating in terms of its credit-worthiness, which has since improved[9].

Table 1: List of Properties Mortgaged by BBMP

Date	Total Amount Rs. in Crores	Sanctioned loan Rs. in Crores	Property	Estimated value Rs. in Crores	Amount to be repaid (with interest) Rs. in Crores	Loan term
27.1.2012	500.00	480.00	K R Market	837.13	965.00	2012-27
29.3.2012	256.53	249.54	Malleswaram Market, Johnson Market (reclaimed) Dasappa Hospital	322.13	393.24	2012-27
26.2.2013 to 26.3.2013	751.22	747.28	Public Utility Building, Mayo Hall Court, Kempegowda Museum, BBMP West zone office, Kalasipalyam market	973.72	1229.32	2013-23 & 27
31.10.2013	169.03	169.03	Rajaji nagar market, Tannery road abattoir (reclaimed)	256.71	259.99	2013-23
3.1.2014	200.00	200.00	Sir M Puttana Chetty Town Hall, JC Road multilevel parking	Not known	NA	
Total	**1676.85**	**1645.85**		**2389.69**	**2847.55**	

Source: Compiled from multiple datasets

Local government's Works

This state of indebtedness and the low credit ratings have an adverse impact on the city's precarious financial position, which is most starkly visible in the city budgets of public works. As a matter of fact, the BBMP city Budget has as many as 4 sub-heads for works – Zonal works, Central works, road infrastructure and Storm Water Drainage. Within these, the maximum weightage is for Zonal works, which are not identified or executed based on any specific need expressed by the citizens. Moreover, these works do not conform to the public policy procedure prescribed for public works. The works are bundled across wards and it is difficult to segregate them by ward boundaries. Based on the dataset of the Project "***vigeye***" website[10], an analysis of ongoing and completed works in the selected wards was undertaken as seen in Table 2. The selected wards – Uttarahalli, Varthur, Thanisandra and Herohalli, are all former rural areas (South, East, North and West of the city centre respectively), which were incorporated into the Greater municipality of BBMP in 2007 and require urban infrastructure to be built.

Table 2: Major categories of works taken up in selected BBMP wards

Sl. No.	Keywords Used	Uttarahalli	Varthur	Thanisandra	Herohalli
1	Construction	64	84	58	107
2	Toilet	4	9	1	7
3	Road	248	208	268	242
4	Drain, Culvert, UGD	164	185	226	200
5	Light	21	30	22	29
6	Park, Plantation	69	24	33	140
7	Borewell	31	79	33	69
8	Rain Water (Water Supply)	29	30	25	85
9	Pot Hole repair	8	18	11	4
10	Landscape	2	0	1	9
11	SWD (Storm Water)	18	2	7	7
12	Burial Ground	7	12	3	4
13	Watchman kiosk	2	0	0	1
14	Children's park	2	1	0	1
15	Footpath	3	0	11	0
16	Maternity	1	0	0	0
17	Garbage	1	0	0	1
18	Miscellaneous (Library, Telephone)*	28	61	42	29

Source: Vigeye database

This analysis reveals that the maximum works undertaken in 4 wards were road construction followed by drain, culvert and Underground drains. The categories are not exclusive and therefore the same work could be reflected in multiple categories (e.g. Construction of Toilets/ Road/ Drain).The works need to be of suitable scale to be economical for the financiers (in case of funded projects) and would typically be taken up at the city level. Such works tend to spillover the ward limits and local considerations may be set aside to ensure project design and execution.

One of the first time SC (Woman) Corporators, elected from Varthur ward, Smt. Pushpa Latha said that she was unaware of the works being taken up in her ward and had to constantly follow up with the Tahsildar to be kept updated of the works being taken up, their status and the expenditure. In such a scenario, it is difficult for common citizens to push for and track the progress of works in their area. Moreover, the lead time of these works tends to span many years, with or without the requisite annual budgetary allocations. These delays also impact the cost of the projects.

Table 3 below shows the tardy progress in the majority of the works. There is also a huge mismatch between the estimated costs and the actual expenditure incurred. This lag could be explained in terms of the number of projects which get approved without adequate budgetary provisions. Such a focus on taking up works (without prior need-based studies, or following proper procedure) resulting in a large number of incomplete projects or projects without work status or completed projects for which payments have not been settled to the contractors, are symptomatic of a deep malaise. This expenditure pattern could partly explain the financial distress that the city government finds itself in.

Table 3: Progress of Works in selected BBMP Wards

Ward	Completed Projects	WIP Projects	Yet to Start Projects	File in Process Projects	Cost Overruns	Projects without Work Status	Cost Savings	Time Overruns	Total Estimated Cost (In Lakhs)	Total Expenditure Incurred (In Lakhs)
Uttarahalli	59		2	14	14	390	21	1	8668.66	637.65
Varthur	97		1	13	4	348	64	50	6089.20	744.34
Thanisandra	56	25	0	6	10	382	27	25	10357.45	1456.74
Herohalli	37		0	0	1	728	9		13001.74	231.65

Source: Vigeye database

Financial viability compulsions

The pressure to ensure that there are no unintended costs in service delivery imposes the need for efficiency in funded projects. The financial concerns of the city lead it to tighten its belt. In addition, since there are a number of State government parastatals involved in the delivery of services like electricity (the Bangalore Electric Supply Company, BESCOM) and water and sewage (the Bangalore Water Supply and Sewerage Board, BWSSB), there is a need to bring in efficiency. This is especially true of the BWSSB which relies heavily on international aid from agencies such as Japan International Cooperation Agency (JICA) for its Cauvery water supply projects. This lead to the imposing of betterment charges for laying water pipes and sewerage lines (Ranganathan 2014). It also leads to higher tariffs for drinking water and electricity, which impacts the economically disadvantaged groups the most. In the paradigm of maximizing returns on investments to the funding agencies, there is no implicit component of equity (through mechanisms like cross-subsidisation) to ensure the sustainability of the service provision. The social as well as economic costs of this non-provision of essential services such as drinking water, public health and sanitation and elementary education, are not quantified or captured in any of the investment models. This does not in any way diminish their value. As a matter of fact, the market forces have developed a perfect price-discrimination model so as to extract the maximum value from each consumer based on their requirements and paying capacity, especially in the matter of payment of bribes. This has been captured by the citizens' initiative to curb corruption "ipaidabribe". The paying capacity and criticality of the need of each segment is exploited to maximize the bribes extracted but the costs are disproportionately higher amongst the economically most vulnerable[11] (World Bank 2018).

Selective consultations with corporates in developing policy

The infrastructure projects funded by VCF and other non-public sources have led to certain features in the cityscape such as shrinking of public spaces, the prevalence of private service providers for most goods and services, including world-class and prohibitively expensive education and healthcare. There is a mushrooming of large enclaves of "gated communities", which are niches of privately-funded development, distinct from their surrounding areas. This has adversely impacted social equity. There are developments to give a voice to the different socio-economic classes of citizens with Bangalore developing a culture of Citizen Activism. As per some estimates, there are over 600 registered Resident Welfare Associations and their Federations in the city. These groups are also actively taking up their concerns to the policymakers, including fighting their public interest (common cause) cases in courts. However, this role of citizen participation in policy-making has not yet been addressed through any institutional mechanism, at either the ward or the city level.

In a bid to further reduce the publicness of city governance, even policy making and governance is increasingly aligned with corporate interests. Bangalore city has, on the guidelines of the State government, set up bodies of prominent individuals to articulate the plans and policies. This process was first started with the Bangalore Agenda Task Force. This Task Force consisted of technocrats who were able to act as an interface between the citizens and the civic agencies. It worked from 1999 to 2004, reporting directly to the then Chief Minister, Shri S M Krishna, then of the Indian National Congress. They brought in their technological and managerial expertise as well as their personal funds to the table. However, since this was an exclusive group, and politically allied with the Chief Minister, they had to exit with the change of party in the State government. In 2010, a similar (though perhaps not so high profile) set-up called Agenda for Bengaluru Infrastructure and Development Task Force (ABIDE) came up under the chairmanship of the then Chief Minister B S Yeddyurappa. Subsequently, the Bangalore Vision Group was set up under the chairmanship of Minister Ramalinga Reddy in 2014. In 2016, the Bangalore Blueprint Action Group was set up again under the Chief Minister, this time Shri Siddaramaiah with the Chairmen of Infosys, Wipro and the urban advocacy group Janaagraha.

These private groups (policy think-tanks/ task forces/ empowered citizens) seek to drive the city's agenda with their high profiles and the additional funds they bring in. However, they are not democratic and do not represent all sections of citizens. Thus, the absence of legitimate citizen engagements is creating a further wedge in civic forums and is adding to urban governance issues. This has also furthered the cause of judicial activism in the city. Even routine activities of the corporation are being undertaken on the specific directions of the Courts – be it the conduct of local body elections, the constitution of Ward Committees, regular garbage clearance or even interventions in the Master Plan or composition of the Metropolitan Planning Committee.

However, this change in the accountability relationship, rather contract, has neither been discussed publicly nor is there sufficient awareness of the shifts in accountability among either the public agencies or the citizens.

Participatory Budgeting

In the context of the overwhelming trends of urban financialisation, there are certain developments, contrary to these processes, such as Participatory Budgeting. The process of involving citizens in the process of governance through the mechanism of financial planning pioneered in the town of Porto Alegre, Brazil in the late 1980s is referred to as Participatory Budgeting. This form of informal consultative deliberations worked so well that there were multiple attempts to replicate them across the world, with mixed success (World Bank 2007). As stated in this publication, Participatory Budgeting was adopted among various countries, but achieved fair success only in a few countries. The necessary and sufficient conditions for the success of Participatory Budgeting in Latin America were identified as:

- The mayor is indigenous, from a party on the left, or both.
- Opposition from local political elites is weak or non-existent.
- Project funding, technical assistance or both are provided by national or international aid organisations.
- The municipality has sufficient revenues to make significant investments in public works or programs.
- There is a tradition of participation and cooperation within and among local civic associations that have not been destroyed by clientelist politics.

Participatory Budgeting (PB) was introduced in various Indian cities as well. Bangalore was among the pioneers in spearheading this in the mid-1990s, with the Non-Governmental Organisations (NGOs) like Janaagraha and Public Affairs Centre (PAC) using the PB in their citizens Budget exercise and Citizens Report Cards CRCs). Thereafter, a group of 4 NGOs – Janaagraha, PAC, Centre for Budget and Policy Studies (CBPS) and Voices gathered in 2002 to form a group called Public Record of Operations and Finance (PROOF). Similarly, the city government of Pune, under the leadership of one of its Commissioners and in association with a local NGO, Janwani, introduced some aspects of PB in 2006, which have been sustained over the years. It is creditable that these efforts have been institutionalised into the municipal system in the municipalities of Pune and its extension Pimpri-Chinchwad. However, despite this tradition being upheld, the allocation of the municipal budget to the PB exercise has remained between less than 1% to less than 2% of the annual budgets. Likewise, in the city-state of Delhi, the party in power (Aam Aadmi Party or AAP) introduced PB from 2015. Here too, the allocations for PB have been meager and the acceptance of PB among citizens has not been uniform across the city.

1. The overall experience of PB in the Indian cities, where it was introduced, has been limited in its impact. The NGOs of Bengaluru continue their advocacy for PB in all the city wards. Pune continues with PB and has had some visible progress in a few civic areas, such as roads, electricity

connections, and drainage, among others. However, due to its limited allocation, there are those who say that it has become more of a formal exercise than an effective one.[12]

2. Participatory Budgeting is one of the techniques of broad-basing governance and giving voice to citizens. Even its proponents list the weaknesses of the process – in that it is not as transparent or inclusive as it can be (World Bank 2007, Menon 2013, Samy 2017). It can be used to promote the agenda of the section which is heard, in a classic case of policy capture. Moreover, it does not involve the most vulnerable and poorest sections of citizens.

Conclusion

The financialisation of urban spaces has emerged as a fundamental aspect of the neo-liberal governance paradigm. This simplistic reduction of urban spaces as mere sources of economic value has eroded the traditional concept of local government accountability to the citizens. There is increasing pressure on the local governments to conform and be aligned to the requirements of the funding agencies. While this may not always be to the detriment of the citizens, the citizen is not central to the processes such as meeting the targets, asset creation as per the plans of the funding agencies, even if they are the higher levels of State or Central Government. These patterns are evident in the local government of the Bruhat Bengaluru Mahanagara Palike, most especially in the context of the latest citizens, who are situated at the peripheral areas of the expanded city. The combination of two factors – the discretionary nature of many of the ULB functions and the responsibility of even many of the obligatory functions being entrusted to State government parastatals, means that many of the ULB's functions are not with the elected municipal body but with higher-level agencies. These may include big-ticket capital expenditure items (Water supply, Sewerage, Electric supply, Town planning and development etc.) which are still in the government sector, but not with the local government. Accordingly, with the lack of functional devolution, financial devolution is also constrained in a classic chicken-and-egg conundrum. This is a sufficient condition for seeking external sources of urban finance for delivery of services and the creation of urban infrastructure. This pattern is formalised and incorporated into the urban policy framework of India in terms of the National Urban Policy Framework on urban finance.

The effect of the trend of treating urban citizens as politically-disenfranchised residents, and mere active economic agents is neither justifiable in a democratic polity nor can it be sustained even in a public economics paradigm. The covenant between the urban local body and the citizen cannot be broken due the financial constraints faced by the local-level of government. Appropriate sets of accountability structures are essential in urban local governance as much as in the rural, state or national contexts. The involvement and engagement with citizens in local governance has to be a cornerstone of the financing options so that the commercial or corporate culture does not displace public service delivery and the ends of economic equity are not sacrificed in the interest of economic financialisation.

Notes

[1] Osborne and Gaebler in their 1992 work, Reinventing Government had prescribed that governments should: 1) steer, not row; 2) empower communities to solve their own problems rather than simply deliver services; 3) encourage competition rather than monopolies; 4) be driven by missions, rather than rules; 5) be results-oriented by funding outcomes rather than inputs; 6) meet the needs of the customer, not the bureaucracy; 7) concentrate on earning money rather than spending it; 8) invest in preventing problems rather than curing crises; 9) decentralise authority; and 10) solve problems by influencing market forces rather than creating public programs.

[2] The concept of economic non-rivalrous goods implies that the consumption of the goods by one consumer does not prevent simultaneous consumption by other consumers; likewise rivalrous goods are those whose consumption by a consumer reduces its availability to other consumers.

[3] The term "too big to fail", used for unviable banking and other corporations, is also used in the context of city governments.

[4] Accessed at http://amrut.gov.in/writereaddata/3-VCF%20Policy%20Book_FINAL.pdf

[5] This AkramaSakrama scheme is subject to a challenge in the Special Leave Petition (Civil) No. 956/2017 in the Apex Court, on the grounds that it is pro-rich, promotes disregard of rules and violative of the Constitution.

[6] The examples in this section have been drawn from various online sources such as: https://www.weforum.org/agenda/2016/10/next-generation-urban-assets/ https://www.weforum.org/agenda/2015/01/the-future-of-finance-for-cities-and-urban-infrastructure/

[7] Accessed from https://smartnet.niua.org/sites/default/files/resources/nupf_final.pdf

[8] This system called the "hundi" system gave the first right to contractors on the corporation's revenues. However, it was objected to by CAG's audit and had to be removed.

[9] In Feb 2018, ICRA, the credit rating agency, assigned the long-term rating of Provisional [ICRA]A- (SO) (pronounced ICRA A minus structured obligation) for the Rs. 1,257 crores term-loans and the Rs. 843.0-crore unallocated facilities of the Bruhat Bengaluru Mahanagara Palike (BBMP). ICRA has also upgraded the long-term issuer rating to [ICRA] BBB (pronounced ICRA triple B) from [ICRA]BB (pronounced ICRA double B). The outlook on the long-term rating for the term loans and the issuer rating is 'Stable'.

[10] Project *VIGEYE* (VIGilance EYE) is a citizen-centric initiative, wherein citizens join hands with the Central Vigilance Commission in fighting corruption. The data was accessed in February 2019 from http://www.vigeyegpms.in/bbmp/?module=public&action=wards.

[11] Accessed online from World Bank at https://www.worldbank.org/en/topic/governance/brief/anti-corruption

[12] CEE Member quoted in this article https://timesofindia.indiatimes.com/city/pune/10-years-on-participatory-budget-still-mere-formality/articleshow/59007595.cms

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INSTITUTE FOR SOCIAL AND ECONOMIC CHANGE
(ISEC is an ICSSR Research Institute, Government of India
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Dr V K R V Rao Road, Nagarabhavi P.O., Bangalore - 560 072, India
Phone: 0091-80-23215468, 23215519, 23215592; Fax: 0091-80-23217008
E-mail: manjunath@isec.ac.in; Web: www.isec.ac.in