Reengineering Urban Infrastructure: How the World Bank and Asian Development Bank Shape Urban infrastructure Finance and Governance in India

Vinay Baindur and Lalitha Kamath

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Note about the authors

Vinay Baindur is an independent researcher and activist on various urban issues. Over the last 12 years he has been associated with practitioners of municipal governance. He has worked with a citizen initiative CIVIC and the Urban research collaborative CASUMM in Bangalore over this period. His current research areas include the JNNURM programme and IFI projects related to governance and infrastructure especially in Karnataka. These include the water sector, and municipal and urban sector reforms.

Lalitha Kamath is an urban planner and researcher who did her PhD in Urban Planning and Policy Development from Rutgers University, NJ. Over the last 10 years she has worked on issues of urban governance, planning and the politics of reforms, urban infrastructure, and local economic development. She was associated with the Urban Research Collaborative, CASUMM, in Bangalore and now works independently.

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Bank Information Center, South Asia
New Delhi
Tel: +91.9871153775
Email: jathialy@southasia.bicusa.org
www.bicusa.org

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Executive Summary

Today there seems to be agreement in government, policymaking and donor circles that the government has failed in providing infrastructure and basic services and that the country's unprecedented economic growth will suffer because of its weak infrastructure. Reportage on the gaps in current levels of investment highlight that government is not performing adequately both due to a lack of funds as well as a lack of capacity to design and deliver world class infrastructure. This, according to the Government of India (GoI) and donors, necessitates private sector entry into infrastructure.

While attention is focused on infrastructure provision in general, it is urban infrastructure in metros and smaller cities that has captured recent (public and policymakers') attention. Pot-holed roads, overflowing garbage, leaking sewage, overloaded buses and constant power cuts tell a tale of overburdened cities that cannot cope with increases in population, economic growth and spatial expansion. This comes at a time when there is growing dependence on cities for sustaining national and regional economic growth. Focusing on the urban sector thus becomes crucially important for several key players: for government to eliminate infrastructure as a bottleneck to economic growth; for the private sector to tap customers and do business in cities; and for IFIs who are keen to lend to municipal governments at a time when national governments are taking fewer loans, cities are becoming the drivers of economic growth, and there is considerable rhetoric regarding greater decentralisation of powers to city governments.

This agreement has fueled a policy shift in government which contains two main components: 1) public funds are granted mainly with the aim of leveraging private sector participation in urban infrastructure (for example through Public Private Partnerships), and 2) the state's role is one of promoting (typically IFI designed) reforms by making compliance with these reforms a condition for fund allocation. This shift, we believe, is not coincidental but has been carefully orchestrated over the years by IFIs and bilateral donors, key policymakers, and others within government (at all levels but with a bias towards union and state governments), the corporate sector, and sections of civil society.

The World Bank (WB) and the Asian Development Bank (ADB) also referred to as IFIs, have played an especially important role in building the ideological foundation for this policy shift. Underpinning their ideology is the notion of decentralization as a "narrative of capital" which practically translates to creating 'incentives' for cities to take loans from financial markets thereby breaking the dependence of cities on higher levels of government for funds, and creating a "market-friendly" role for governments and civil society organizations. In such a framework, decentralisation is not about financial and functional devolution to the third tier of government as mandated by the 74th Constitutional Amendment Act (74th CAA) but is about reducing the power of state agencies to provide public infrastructure, prioritising revenue generation in urban services and shifting the responsibility for demanding better services onto local consumers. Accountability too is couched in the language of "client power" which, the IFIs claim, is best achieved through market mechanisms.

The focus on decentralisation and accountability through market mechanisms represents a recasting of the debate by the IFIs from promotion of outright privatisation of urban services to the commercialisation of urban service delivery. We define commercialisation in the context of urban services as changes in institutional and financial management that facilitate the shift from public financing to private financing and from public provision to private design, operations and delivery of services. This shift has largely come about due to the intense global criticism that the IFIs have faced from scholars regarding their pro-private sector lending patterns and tussles with activists at the grassroots opposing privatisation of services.

This paper unpacks the key mechanisms, strategies and processes the IFIs have used to build agreement with their policies among government, donor and corporate circles. It also throws light on the ways in which the state (Union and State Governments) has accepted and actively advanced a policy programme for an urban reforms agenda that privileges PSP in urban infrastructure and helps restructure state and municipal governance with respect to the design and delivery of urban infrastructure. Of focal importance is the role played by the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the Union Government's flagship urban development programme, which promotes PPPs as a means for financing and delivering infrastructure for 63 cities across the country. The paper also analyses the impacts of this restructuring of state and municipal governance and administration on the provision of basic services especially to more vulnerable poor groups.

The paper reveals that the market model provides a blueprint for building infrastructure that meets the interests of IFIs, and select groups inside and outside of government. Convinced of the value of this approach, these groups unceasingly propagate it without sufficient scrutiny of how this approach unfolds on the ground and the impacts on local groups. Failure to consider alternatives to this policy framework is particularly serious in view of the fact that performance on the ground (in terms of number of projects completed on time, and with inclusive outcomes) has been far from satisfactory. Despite this, urban reforms and projects continue apace with no pause for reflection or revisiting of programmatic assumptions and progress on outcomes. We see as imperative the need for greater and more rigorous examination of the outcomes of PPP projects, through studies by independent researchers/institutes and social audits by community groups. Such a grounded understanding could lead to sustained pressure for greater debate and reflection on the current trajectory and implications of urban reforms.

All in all, current urban sector policy marks a clear withdrawal of the state from public provision of services accompanied by a moral retreat from the responsibility to ensure that all groups in society have access to basic services. Spending on basic services for the masses of urban poor and lower middle class seems to no longer be the preserve of state and city governments. Instead, there is targeting of large infrastructure projects (claimed to be needed for economic growth) that are expensive and benefit fewer people. The focus is squarely on promoting PSP in urban infrastructure without putting in place the necessary legal and regulatory framework to ensure adequate performance and outcomes. In a context where the private sector is increasingly promoted as the authority involved in service provision and design, it is not clear who will take responsibility when problems related to service provision or access arise. Increasing inequalities (due to skews in allocations and expenditure between large infrastructure projects and basic services) and implementation fractures (as projects vary substantially in practice than on paper) have spurred a range of contestations and conflicts among societal groups. In such a situation, we indicate the critical need for the state to commit to establishing and enforcing service delivery norms and performance standards, especially to ensure affordable and quality services for the poor. We also argue for much more emphasis on provision of basic services to all.

The current model of reforms dilutes the role for local government. A profusion of parallel bureaucratic structures have been established to develop and manage IFI and other infrastructure projects. This has reduced the ability of local governments to function autonomously and provide services that are more responsive, appropriate to local needs, and accountable. We call for reversing this trend, instead initiating a process of strengthening of city governments to give them more say in governance and local decision-making.

The paper is divided into two parts. Part I looks at the role IFIs are playing in shaping urban infrastructure finance and governance policy in India and the approaches that have been used to gain the 'buy-in' of government officials in the three tiers of government. Part II focuses on the impact this has on municipal government and basic services for the urban poor. The concluding section sums up the analysis and provides some thoughts to consider for the future.

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Glossary / Abbreviations

ADB	-	Asian Development Bank
ADTA	-	Advisory and Operations Technical Assistance
BBMP	-	Bruhat Bengaluru Mahanagara Palike
BSUP	-	Basic Services for Urban Poor
CBGA	-	Centre for Budget and Governance Accountability
CDP	-	City Development Plan
CDS	-	City Development Strategy
CMA-K	-	City Manager's Association of Karnataka
CPF	-	Community Participation Fund
CPL	-	Community Participation Law
CVTC	-	City Voluntary Technical Corps
CVS	-	Capital Value System
CTAG	-	City Technical Advisory Group
DPR	-	Detailed Project Report
GDP & GSDP	-	Gross Domestic Product and Gross State Domestic Product
ICRIER	-	Indian Council for Research in International Economic Relations
IFIs	-	International Financial Institutions
JNNURM	-	Jawaharlal Nehru National Urban Renewal Mission
KUDCEMP	-	Karnataka Urban Development Coastal Environment Management Project
KMRP	-	Karnataka Municipal Reform Project
KUIDP	-	Karnataka Urban Infrastructure Development Project
KUWASIP	-	Karnataka Urban Water Sector Improvement Project
MDGs	-	Millennium Development Goals
MHUPA-		Ministry of Housing and Urban Poverty Alleviation
MML	-	Model Municipal Law
MTFP	-	Medium Term Fiscal Plan
MoUD	-	Ministry of Urban Development
NCAER	-	National Council for Applied Economic Research
NKUISP-		North Karnataka Urban Infrastructure Support Project
NTAG	-	National Technical Advisory Group
NUIF	-	National Urban Infrastructure Fund
O & M	-	Operations and Maintenance
PFI	-	Private Finance Initiative
PPPs	-	Public Private Partnerships
PMC	-	Project Management Consultant
PMU and PIU	-	Project Monitoring Unit and Project Implementation Unit
PSIF	-	Private Sector Infrastructure Facility
PSP	-	Private Sector Participation
SFC	-	State Finance Commission
SPV	-	Special Purpose Vehicle
STAG	-	State Technical Advisory Group
TA	-	Technical Assistance
TNUDF	-	Tamil Nadu Urban Development Fund
TNUDP	-	Tamil Nadu Urban Development Project
UIDSSMT	-	Urban Infrastructure Development Scheme in Small and Medium Towns
UIG	-	Urban Infrastructure and Governance
ULSG	-	Urban Local Self Government
UMP	-	Urban Management Programme
UNDP	-	United Nations Development Programme
URIF	-	Urban Reforms Incentive Fund
USAID	-	United States Agency for International Development
WB	-	World Bank
WSP	-	Water and Sanitation Programme

Introduction

Today there seems to be agreement in government, policymaking and donor circles that the government has failed in providing infrastructure and services and that the country's unprecedented economic growth will suffer because of its weak infrastructure. Various sources, including government committees, the Planning Commission and media reports pinpoint the large volumes of investment needed to be incurred on infrastructure and the gap between these and current levels of public investment.[1] Reportage on the gaps in current levels of investment highlight the government's inadequate performance owing to a lack of funds as well as a lack of capacity to design and deliver 'world class' infrastructure. This, according to Government of India (GoI) and donors, necessitates private sector entry in infrastructure.

While public and policy makers' attention is focused on infrastructure provision in general, it is urban infrastructure[2] particularly in the metros but also in small and medium towns that has captured greater attention. Pot-holed roads, overflowing garbage, leaking sewage, overloaded buses and constant power cuts all tell a tale of overburdened cities that cannot cope with increases in population and spatial expansion. This comes at a time when there is growing dependence on cities for sustaining national and regional economic growth.[3] Focusing on the urban sector thus becomes crucially important for several key players: for government to eliminate infrastructure as a bottleneck to economic growth; for the private sector to do business in cities; and for IFIs who are keen to lend to municipal governments (Goldman 2006; Kirk 2005) at a time when national governments are taking fewer loans, cities are becoming the drivers of economic growth, and there is considerable rhetoric regarding greater decentralisation of powers to city governments.

This agreement has fueled a policy shift in government which we see as comprising two main components: (1) public funds are now granted mainly with the aim of leveraging private sector participation (PSP)[4] in urban infrastructure, for example through Public Private Partnerships (PPPs)[5], and (2) the state's role is one of promoting (typically IFI designed) reforms by making compliance with these reforms a condition for fund allocation. This shift, we believe, is not coincidental but has been carefully orchestrated over the years by International Financial Institutions (IFIs) and bilateral donors, key policymakers and others within government (all levels but with a bias towards union and state governments), the corporate sector, and select civil society groups.

The World Bank (WB) and the Asian Development Bank (ADB), henceforth also referred to as IFIs, have played an especially important role in building an ideological basis for the policy shift. Underpinning this ideological basis is the view of decentralisation as a "narrative of

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[1] One such estimate is $475 billion by 2012 with a gap of $123 billion (11th Five Year Plan).

[2] In this study, we focus on urban infrastructure and define it to include water and sanitation, solid waste management, transport and energy services.

[3] The economic contribution from Indian cities is estimated to grow to 65 % of GDP by 2011 from the present 55-60 % (M Rajamani 2004). Further, the 11th Five Year Plan of the Government of India (GoI) plans to maintain a growth rate of 9 % per annum during 2007-12 with a bigger role for the service sector. This growth will be achieved largely in urban areas where the service sector is predominantly located.

[4] We use the term private sector participation (PSP) in a general sense to refer to participation of the private sector in the investment and/or operation of infrastructure projects and services.

[5] We use the term public-private partnership (PPP) to describe a public good or service that is funded and/or operated and delivered through a partnership of government and one or more private companies. At the local level, reliance on the PPP approach is partly due to resource constraints as it uses public resources to leverage private funds. Ideological factors are also at work. They include the belief that the private sector is more flexible and efficient than government and, therefore, better positioned to address urban problems (Squires 1993); and the recognition that no single local actor possesses the capacities to deal with urban problems that cut across different sectors (McQuaid 2000).

capital" and greater efficiency. In practice this means the creation of 'incentives' for cities to take market loans, there-by 'breaking the dependence' of cities on higher levels of government for funds, and a market-friendly role for governments and civil society organizations. In such a framework, decentralisation is not about financial and functional devolution to the third tier of government as mandated by the 74th Constitutional Amendment Act (74th CAA) but it is about curtailing the power of state agencies to provide public infrastructure, emphasising revenue generation, and shifting the responsibility for demanding (and getting) better services onto local consumers (Mohan and Stokke 2000).

The framework of accountability which guides the World Bank's work in service delivery has been described in detail in "Making Services Work for Poor People", the World Development Report (WDR), 2004. The Report privileges market mechanisms as a means of embedding greater accountability in public agencies. The report states right in the beginning that services fail poor people because of weaknesses in the "long" (electoral) and "short" (client power) routes to accountability; it further asserts that: "…the 'government failures' associated with the long route may be so severe that, in some cases, the market solution may actually leave poor people better off (World Bank 2004:15)". Scholars caution against equating accountability with market-based policies, arguing that what donor agencies fail to recognise is that "free-market economics removes many decisions from the purview of not only the state, but also the political community" (Jenkins 2001: 263). Findings from fieldwork in Karnataka reinforce this observation revealing that longer-term routes to accountability — engagement by associations and local leaders, and political pressure via councilors — are crucial for better access to services especially for poorer groups.

The focus on decentralisation and accountability through market mechanisms represents a recasting of the debate by the IFIs from promotion of outright privatisation of urban services to the commercialisation of urban service delivery and deployment of "client power". We define commercialisation in the context of urban services as changes in institutional and financial management that facilitate the shift from public financing to private financing (such as through user fees, municipal bonds and forms of debt) and from public provision to private design, operations and delivery of services. This shift has largely come about due to the intense global criticism that the IFIs have faced from scholars regarding their pro-private sector lending patterns and confrontations with activists at the grassroots opposing privatisation of services.

The focus of private sector participation seems to be the creation of high-end "world class" infrastructure. The most recent WDR (2009) "Reshaping Economic Geography" appears to reinforce this thinking with its claim that economic growth has and will continue to be uneven and that the key to inclusiveness is not to try and balance economic development but to encourage people to move where economic investment and activity are. One policy response endorsed by WDR 2009 is spatially connective infrastructure (e.g., roads). This indicates that the IFI's current emphasis on large infrastructure projects that promote PSP is likely to continue in India, and perhaps grow. Large infrastructure projects do not necessarily benefit urban poor groups even though the most crucial aspect of the urban development process, as stated in the Millennium Development Goals (MDGs), is to improve the quality of life for the poor by the provision of basic services. This will have particularly serious consequences: the Mid-Term Review of the MDGs highlights the failure of countries in the South Asia region to reach targets in water supply, sanitation, health and education. Both the WB and ADB link their urban sector work directly and indirectly with poverty reduction and MDG achievement.

The paper examines the key mechanisms, strategies and processes the IFIs have used to build agreement on a policy shift that favours the private sector in urban infrastructure. It also sheds light on the ways in which the state (Union and State Governments) has accepted and actively advanced a set of policy options for an urban reforms agenda that privileges PSP in urban infrastructure and helps restructure state and municipal administration with respect to the design and delivery of urban infrastructure. An important focus is on the role played by the Jawaharlal Nehru National Urban Renewal Mission (henceforth referred to as JNNURM), the Union Government's flagship urban scheme, in seeking PPPs as a means for financing and delivering infrastructure for 63 cities across the country.

The paper is divided into two parts. Part I is divided into three sections. The first two sections look at the role IFIs are playing in shaping urban finance and urban governance policy in India and the third section traces how IFI interventions have been integrated into reforms by government, private sector and other donors. Part II analyses the impacts of this restructuring of state and municipal governance on the provision of basic services especially to more vulnerable poor groups. Spending on basic services seems to no longer be the preserve of state and city governments. Instead, they target expensive large infrastructure projects claimed to be needed for economic growth at the cost of basic services for poor and lower middle classes. Additionally, the focus is mainly on ensuring cost recovery in infrastructure projects to repay investors rather than enhancing quality and coverage of services. This hurts all groups, especially the poor. Increasing inequalities (due to skews in allocations and expenditures between large infrastructure projects and basic services) and implementation fractures (as projects vary substantially between practice and on paper) have spurred a range of contestations and conflicts among societal groups. The paper briefly touches on some of these. The concluding section sums up the analysis and provides some thoughts to consider going forward.

The paper takes into account current and past IFI initiatives in urban infrastructure in India, along with those planned in the years ahead. We give examples from IFI projects in various stages of implementation wherever possible. Most examples are from Karnataka, in South India, as the state has been a frontrunner in pursuing reforms both in terms of policy / legislation and the number and variety of projects implemented (Sangameshwaran et al 2008). By amending the Karnataka Municipal Corporation's rules, for instance, Karnataka became the first state to provide legal entry to private operators in urban water delivery systems (GoK 2005). One caveat of the study is that we do not directly focus on the role of bilateral agencies, like the United States Agency for International Development (USAID) and the Department for International Development (DFID), in advancing agreement on urban sector policy. However, we acknowledge their importance in funding, collaborating with, and reinforcing the projects, reforms and policies of the WB and the ADB.

Part I

Building agreement on urban sector policy: Agreement on what and how it was brought about

Over the last 12-15 years, a distinct policy shift has taken place in the urban sector among policy makers and policy influencers (within government, corporate sector, and civil society) in the union and state governments. We argue that the role of IFIs has been crucial in bringing about this policy shift. IFI and bilateral funds account for only about 2% of government expenditure on development (Project Memorandum 2006, WSP). Since India does not have high aid dependency and IFIs claim to operate only "where there is agreement with the national government…to advance the government's policy and development goals" (WB, 2007), focusing government policy and funds on enabling private sector entry in urban infrastructure requires an agreement within government on the need for PSP in urban infrastructure. The agreement hinges on the belief that urban infrastructure is a key driver of economic growth and requires entry of the private sector because it is the private sector's efficiency that can result in building the infrastructure needed to make India's cities world class. As a result, the state's role in direct funding and provision of infrastructure should diminish with the state now being responsible for allocating public funds to leverage private sector funds and, further, of making these public funds conditional on implementation of a common set of (often IFI designed) reforms.

Part I explains how the IFIs influenced the building of agreement on the content of urban policy in India through a series of prescriptive reforms, policy aids and capacity building mechanisms. A detailed set of WB and ADB prescriptions for financial and governance reforms have been linked to project loans given to state governments. To enable more effective and accelerated implementation of these reforms, the WB and ADB have negotiated numerous Technical Assistance (TA) grants to the Union and state governments supporting the development of regulatory changes and capacity building tools that promote PSP in urban infrastructure. Knowledge building also takes place through IFI-sponsored training programmes and seminars and publication of policy and research reports that emphasise the need to move away from public investment and delivery of services to private financing and delivery of services. It is important to note the acceptance and active advancement of this orthodoxy by senior bureaucrats and political leaders. Scholars (Corbridge and Harriss, 2000; Jenkins, 2001) have pointed out that the IFIs' neo-liberal agenda has opened up new avenues for accumulation of wealth among the political elite as they stand to gain substantially from this process. This section also highlights how financial and governance reforms proposed by IFIs open up new pathways for the private sector for earning profit. As such, a coterie of senior bureaucrats, senior politicians and private companies form a strong lobby group advocating for the rapid implementation and scaling up of these reforms.

Part I is divided into three sections. In section 1 and 2 we examine key prescriptions for financial and governance reforms respectively, including the regulatory, capacity building and knowledge tools that support implementation of these reforms. This is followed, in section 3, by an exploration of the process by which the IFIs have integrated reforms with initiatives of government, private sector and other donors at state, national, and local government level and how these have served to embed a policy shift that is favourable to PSP entry in urban infrastructure.

1. *Financial reforms*

1.1 Moving from public investment to private financing of urban infrastructure

A key objective of the IFIs is to increase the proportion of funds that cities raise for urban infrastructure from market sources, such as municipal bond issues and other forms of debt. Till the time that municipalities rely on budgetary support from state/central government for developing infrastructure, the goal of raising funds from the market could not be realized. Measures introduced by the IFIs therefore aim to break municipalities' reliance on central and state budgetary allocations and sovereign guarantees for urban infrastructure and provide them with (exclusively) private financing options, such as user fees, municipal bond issues and other forms of debt, for building infrastructure. In this, the state has provided considerable support.

The advent of the Eighth Five Year Plan (1992-97) for the first time introduced a focus on building cost recovery into the municipal finance system. This was reinforced during the Ninth Plan period (1997-2002) with a substantial reduction in budgetary allocations for infrastructure development. Metropolitan and other large cities were encouraged to make capital investments on their own in addition to covering operational costs of the infrastructure they developed. IFI reform prescriptions to mobilise private resources were integrated into the recommendations of a Union Government committee, which published the India Infrastructure Report in 1996[6]. The Committee also recommended private sector participation in urban infrastructure development and accessing capital markets through issuing municipal bonds. The committee's secretariat was operated by the ICICI Bank Ltd. This Report is considered an important point of reference even today as it was the first GoI report to comprehensively address the potential for commercialisation of infrastructure.

By the late 1990s, the union Ministry of Urban Development (MoUD) launched a series of urban development programmes[7] that for the first time linked budgetary allocations with implementation of specific policy reforms. Several of these reforms were proposed by IFIs, revealing the strong influence they had in designing these programmes. These programmes all emphasized moving away from state subsidies and guarantees, and raising funds from the market and through user fees (Ghosh 2006). In 2004 the Twelfth Finance Commission in one of its final recommendations stated that state or local governments should take future loans directly and that national guarantees should be phased out. All this has meant that cities were being starved of central government funding and compelled to undertake development projects through borrowings from the market, generating user fees and/or from IFIs.

Both WB and ADB have announced increased reliance on municipal development funds as a crucial part of their strategy to help finance local investment needs in Asia (World Development Report, 1988; Joshi, 2003). In 2003 the International Finance Corporation (IFC)[8] introduced its municipal fund, which offers financial support to sub-national entities without sovereign guarantees for infrastructure development. In 2006, the WB's

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[6] *The India Infrastructure Report: Policy Imperatives for Growth and Welfare (1996)*, Ministry of Finance, Government of India, New Delhi. The India Infrastructure report also included other IFI reform prescriptions such as a full cost recovery system for infrastructure development and decreasing government subsidies to the urban poor. It arrived at estimates of Rs 250,000 million required per year for the next ten years to make up the urban infrastructure deficit. However most of this funding did not come through as envisaged.

[7] These included the Mega Cities Loan, the Urban Reforms Incentive Fund (URIF) and the City Challenge Fund (CCF).

[8] The IFC is the private sector arm of the World Bank Group and promotes private sector development in borrowing countries.

Sub-national Development Program was set up to offer Technical Assistance grants to sub-national entities for financial reforms followed by financial support (guarantees and loans) to attract private financing (WB, 2006)[9]. The ADB has also launched (2007) a new Urban Services Initiative, which provides resources, such as sub-sovereign loans, to help cities address the constraints to investment, identified in its *Managing Asian Cities* report. The goals of the funds are to increase access to credit from the market and make local governments more financially viable and creditworthy so that they can borrow from the market. The WB and ADB argue that this would lead to an increase in the efficiency of local investment (WB, 2006). Further, they argue that it is the urban poor who suffer the most from lack of resources for infrastructure and the improper management of existing resources and the capital market is the best potential source of investment and management resources to rectify this situation (USAID India Strategy 2003-2007). There seems to be little empirical evidence in favour of this position in India, as explained in Part II. Scholars and activists have called for comprehensive studies examining the performance of municipal bond issues in municipalities across the country especially in light of the fact that several cities have not been able to fully utilize the funds raised through bond issues and there are grave doubts about the ability to pay back investors without compromising on routine operations and maintenance (O&M) functions.

These funds also work in tandem with other GoI and private sector initiatives so as to expand their reach and effectiveness across the country. In October 2006, the Infrastructure Leasing and Finance Services (IL&FS) Company[10] set up a Rs 30 billion fund, the Urban Infrastructure Fund, supported by a consortium of 15 public and private banks and financial institutions. The technical instrument to be employed under this fund, the Pooled Municipal Debt Obligation (PMDO), aims to supplement government funds to sub-national entities for infrastructure. Under this arrangement, loans would be provided at 9.5% interest rate (*Economic Times* October 14, 2006). The WB, IFC and ADB have indicated their interest in participating in this fund (*Financial Express,* October 14, 2006). IL&FS is also in dialogue with the WB to set up a National Urban Infrastructure Fund (NUIF) to encourage reforms in infrastructure financing and promote private sector investment and operation in urban infrastructure. It aims to get bankable projects for financial institutions to fund on the condition that cities adhere to a set of reforms[11]. Participation of IFC's municipal fund is also being envisaged in NUIF. The proposal is awaiting approval from the Planning Commission of India.

Besides the WB and the ADB, the bilateral United States Agency for International Development (USAID) has played a crucial role; both in stimulating the interest of GoI and private financial institutions in considering private financing in urban infrastructure projects and in creating acceptance around the concept of commercial viability in the delivery of urban infrastructure services (USAID 2005). Through the three phases (1994-2008) of its Financial Institutions Reform and Expansion- Debt (FIRE- D) project, in particular, USAID is developing "models for market financing" of local government projects. The next section explains the culture of commercialisation that has been set into motion and its implications.

[9] The Sub-national Development Program is a pilot proposal for 3 years- FY07-FY09. It involves financial commitments of USD 800 million and technical assistance from IFC worth USD 6 million (WB 2006).

[10] To gain private sector confidence, the GoI helped establish semi-public agencies and institutions like the IL&FS that would test out the model of privately financing urban infrastructure projects (Ghosh, 2006).

[11] These reforms are the same as those mandated in the Jawaharlal Nehru National Urban Renewal Mission scheme launched by GoI in December 2005. See page 15 for more information.

1.2 Credit rating and IFI notions of "credit worthiness": Reducing risk for the private sector?

In 1994, the Indo-US FIRE (D) project began the work of developing a municipal bond market in India. It engaged an Indian credit rating agency, Credit Rating and Information Services of India Limited (CRISIL), to develop a methodology for conducting municipal credit ratings in India. Before issuing bonds, municipalities need to receive a credit rating since investors' decisions on whether to invest in the bond issue depend on such a credit rating as it is meant to provide them with an independent third-party assessment of the municipality's relative current and future credit strengths and weaknesses. Following CRISIL's credit rating of the Ahmedabad Municipal Corporation (AMC), with the support of Fire (D) the city issued India's first municipal bond without state guarantees to finance a water supply and sewerage project in 1998[12]. In 1999 GoI decided to provide tax-free status to municipal bonds to boost the municipal bond market. The IFIs and GoI endorse this type of a rating system because they are interested in growing the volume and types of direct private sector-led lending to cities and towns in the future. Since India's private finance community increasingly regards the municipal credit rating system as a "solid indicator of a city's performance and competitiveness" (Vaidya and Vaidya, 2008 p. 2), an increase in sub-national lending/debt is possible only if smaller municipalities go through a credit rating similar to the ones undergone by metropolitan cities since the mid-nineties.

The Secretary, Union Ministry of Urban Development has recently announced that ULSGs can seek direct funding from multilateral lending agencies (*Economic Times*, Aug 7, 2008). The government has asked credit rating agencies to rate ULSG's infrastructure projects and these ratings would be crucial for ULSGs to get funds from IFIs. The Secretary further argued that this would "empower" ULSGs by giving them greater autonomy to decide their funding requirements and potential lenders (ibid) although this is a questionable assumption given the overall poor financial health and capacity of ULSGs, and the heavy (financial and other) dependence on state governments. Loans can now be given to credit-worthy ULSGs without an insistence on State or Central Government guarantees after the IFI ascertains the ULSG's financial health based on which it determines loan eligibility and amount (*The Hindu*, July 24 2008). The ADB is currently in discussion with the Municipal Corporations of Nagpur and Vijayawada who could become the first in the country to directly take a loan from the ADB. To date over 100 ULSGs have either obtained a credit rating or are in the process of obtaining one (Vaidya and Vaidya, 2008).

To enable big and small municipalities to attract private financing, the IFIs along with agencies like USAID, focused on developing their creditworthiness[13]. The main objective of creditworthiness as seen through the emphasis on various credit enhancement mechanisms like escrow[14], pooled finance[15] and guarantees[16] seems to be to reduce risk

[12] Indo- US Fire (D) support took the form of assisting in the preparation of risk assessments and Corporate Plan, and sponsoring and facilitating training and study tours of AMC staff and elected representatives to build their capacity to undertake and sustain reforms (Vaidya and Vaidya 2008).

[13] The World Bank (2004) defines the basic requirements for creditworthiness to be: 1) stable, predictable and adequate revenues to support borrowing; 2) managerial and financial capacity to use debt responsibly and do strategic planning for investment; and 3) track record of timely payment of principal and interest.

[14] This involves locking an identified revenue stream into a separate escrow account to ensure payback. This could come from the ULSG's own resources (eg. property tax) or from state government grants.

[15] Pool financing is used to enhance credit worthiness of small and medium towns so that they can access the market. By themselves they have small revenues and poor credit rating. So a number of them come together to issue bonds. The pooled revenues of these ULSGs are sufficient to service debt obligations and get an investment grade rating (CASUMM 2007).

[16] Guarantees are given by entities having a higher credit rating than the ULSG taking the loan, most commonly by the central / state government (CASUMM 2007).

for private investors. IFI-sponsored projects typically include at least one of these credit enhancement mechanisms, sometimes more than one as in the case of the Greater Bangalore Water and Sanitation Project (GBWASP). The GBWASP was designed to provide piped water supply to the eight ULSGs around Bangalore[17]. The project uses an escrow mechanism to lock an identified revenue stream (the property tax of the local governments) into a separate account to ensure payback to private investors. The GBWASP also makes use of the pooled finance mechanism to enhance the credit worthiness of the 8 municipalities so that they can access market funds. By themselves these municipalities have small revenues and poor credit rating but by coming together to issue bonds, the pooled revenues of all eight are sufficient to service debt obligations and get an investment grade rating. Additionally, in the GBWASP 35% of capital costs are being recovered from upfront contributions (known as beneficiary capital contributions- BCC). All three mechanisms together help reduce the risk of default faced by private investors in the project.

Pooled finance projects were pioneered in Tamil Nadu by the WB and USAID. The benchmarks defining the success of these interventions seem to be purely financial (Vijayabaskar and Wyatt, 2005). So far there has been no assessment of their functioning by an independent third party. Despite this, the Government of India has introduced a central Pooled Finance Development Fund (PFDF) based on the "success" of the pooled finance projects in Tamil Nadu and Karnataka. Launched in November 2006 with Rs 25 billion funding PFDF will support small- and medium-sized ULSGs to access capital markets (Vaidya and Vaidya 2008).

1.3 The role of the state: guaranteeing cost recovery for the private sector?

While state budgetary allocations and sovereign guarantees to ULSGs for infrastructure development are considered to lead to public sector service inefficiencies (WB, 2006), state guarantees to reduce risk for private investors are seen as bridging the gap between availability of funds and project costs for commercially viable projects (ADB, 2001). This 'gap funding' ensures cost recovery for the private sector in case of the ULSG's inability to pay. Importantly, an increasing trend is for the state to confine offering guarantees to "creditworthy" ULSGs that agree to accept and implement reforms in infrastructure projects, such as instituting PPPs and charging user fees.

The central and state governments provide guarantees in several ways. For instance GoI created a "viability gap fund" (VGF), which grants a government off-budget subsidy of up to 20% of total project cost with the intention of making PPP projects bankable. A PPP project that delivers an infrastructure service with user fees is eligible to access funds under VGF. A company that has 51% subscribed and paid up equity owned and controlled by a private entity can provide the services[18]. The ADB has stated it will offer viability gap funding in a bigger way than it has done in the past (ADB 2008). The GoI has also set up the India Infrastructure Finance Company Limited (IIFCL) a limited liability company to provide long term debt for financing infrastructure. IIFCL will lend to public sector companies but overriding priority will be given to PPP projects for direct lending. IIFCL will raise funds through the domestic and external market on the strength of government guarantees[19]. The ADB is providing India $500 million for IIFCL to help catalyze private-sector investments in infrastructure of up to $3.5 billion. IIFCL has been

[17] These 8 municipalities are now merged into the Bruhat Bengaluru Mahanagara Palike (BBMP). Phase II of the project includes a sanitation component which is to be funded through the KMRP- see section on KMRP.
[18] If necessary, GoI can give additional assistance, not exceeding a further 20% of total project costs.
[19] In the first year of operation (2005-06), a guarantee limit of Rs 10,000 crore has been specified.

designed to promote public-private partnerships between the government and private sector in order to increase investment in infrastructure.

This section has focused on several crucial financial reforms prescribed by the IFIs to usher in private sector involvement in urban infrastructure. However, governance reforms are also necessary to implement and institutionalize these financial reforms within (state and local) government apparatus.

2. Governance reforms

2.1 Promoting formation of institutional intermediaries dominated by bureaucrats

A key objective of governance reforms prescribed by the IFIs is to depoliticise and commercialise the functioning of institutions of governance. These are justified in the name of avoiding political "interference" and promoting greater efficiency. This has meant that bureaucrats, rather than elected officials, work closely with IFIs and dominate different government structures administering the reforms. Indeed, a particular condition of the IFIs has been to prescribe setting up special purpose vehicles (SPVs), purely administrative and regulatory bodies, which would make project decisions, channel funds, monitor project and reform progress, and be in overall charge of the project. Senior bureaucrats typically dominate these SPVs that have no local elected representatives on their Boards. Although SPVs operate in the jurisdiction of local governments, they bypass local elected councils and report directly to the state government. SPVs are justified by government and donors as necessary to avoid the political "interference" from elected representatives and increase the speed and effectiveness of project implementation. They also meet the demands of IFIs for providing a single point of supervision and contact. SPVs, however, come with their own set of problems as described below.

In 1993, the state of Karnataka established one such SPV called the Karnataka Urban Infrastructure Development and Finance Corporation (KUIDFC) for projects with a focus on urban and municipal reforms. All IFI projects are routed through KUIDFC. KUIDFC does not entertain ULSGs approaching it directly; the District Commissioner (DC) typically links the ULSG and KUIDFC. This means that in KUIDFC (including IFI) projects no direct link exists between the ULSGs and the contractors hired to do the work in the ULSG's jurisdiction. Contractors have to be approached through KUIDFC making monitoring and accountability to local government and local residents difficult. Frequent changes in the officials and engineers at KUIDFC compound the difficulty of doing follow up work. Interviews with local elected representatives reveal that ULSGs have not been consulted on decisions regarding tenders, selection of consultants, or performance benchmarks. KUIDFC usually takes such decisions along with consultants and senior bureaucrats. This has reduced local participation in the project and local accountability since the ULSG has no control over funds, project decisions or implementation. Moreover, since the KUIDFC is created by mandate of the state government and reports to it, state level bureaucrats and state elected leaders retain strong control over funds (Ghosh 2006). Not only does this refute claims that SPVs increase the effectiveness of project implementation and avoid political "interference" from elected representatives but by seeming to concentrate political power at the state level it contradicts the principles of administrative and fiscal decentralisation embodied in the 74th CAA.

Despite these concerns, IFI projects continue to be routed through SPVs. Further, the ADB Private Sector Infrastructure Facility (PSIF) II TA has given recommendations to four states on how to strengthen capacity and capability of existing SPVs to promote

PPPs in urban infrastructure, either through better legislation or expanded financial / human resources.

2.2 Outsourcing government tasks to private companies through PPPs

While financial reforms help to attract private investors into urban infrastructure, an institutional framework that is conducive is also necessary. PPPs have become one of the most visible means of achieving this change in institutional management. However, the lack of PPP projects on the ground, a recent article argues, is because states do not have the time, money or expertise to do the preparation of detailed project reports (DPRs) for PPPs and the private sector does not want to do DPRs because of lack of assurance that they will be awarded the project after spending the time and money on preparing DPRs (*Mint,* July 27, 2007). Helping structure PPP projects therefore becomes necessary if more PPPs are to get off the ground. This is a task that the WB and ADB have increasingly taken upon themselves. They have established a wide range of institutional arrangements to achieve this.

In 1996 and 2001, the ADB approved two project loans, Private Sector Infrastructure Facility at State Level Project (PSIF) I and PSIF II respectively. PSIF II had a piggy-back TA (Enhancing Private Sector Participation in Infrastructure Development at the State Level) which was completed in 2005 through a consultant contract. This was part of the mandate ADB had identified for itself of playing a key role in project identification for PPPs, structuring projects to attract private capital, and supporting other aspects of PPPs such as assisting in attracting international firms to supplement the domestic firms where domestic ones fail to meet the demand for construction. PSIF II TA concluded that state level agencies need to incur an expenditure of Rs 30-60 million on developing a bankable PPP project to the point where private investors are willing to come in. The TA proposed that this could be achieved through the creation of a Private Finance Initiative (PFI)[20] for each state — located in the State Finance Ministry — that would accelerate the design and implementation of PPP in urban infrastructure. In Jan 2008, the Union Committee on Infrastructure revealed plans for launching something very similar — a company for providing advisory services to Central and State Governments for structuring PPP projects to jumpstart infrastructure projects under the PPP route[21].

The significant transaction costs of designing and implementing PPPs make it critical to first evaluate whether and in what situations PPPs could be viable rather than automatically promoting them as more efficient (IMF, 2006)[22]. PSIF I and II seem to exclude non-PPP options that might be less expensive while attaining service efficiency. Moreover, evidence from the UK seems to indicate that PFI is extremely expensive for its citizens. Ray (2007) argues that on average it costs 30% more to build and run services under PFI in the UK rather than keep services in-house. Local activists, NGOs and political groups maintain that "not only is PFI a sly way to reduce the size of the

[20] The PFI was pioneered in the UK by the Conservatives in 1992 to overhaul public services. It involves the state signing long term contracts with the private sector to provide or upgrade services, in effect, the state taking out mortgages or renting services from PFI companies (Ray, 2007).

[21] Their role covers development of bid documents including the concession agreement, project structuring, financial modeling, and advice on bidding process. 30 per cent of the aggregate investment, viz., Rs 6,11,591 crores is to be sourced from the private sector during the 11th Plan period. This is intended to increase the accountability of private consultants, improve quality of advice on projects and consequent project structure. Salient features of the proposal include a one-time grant by the Central government, equity contribution of shareholders and revenues generated from the advisory services (PPP in India website).

[22] This could be achieved via a 'public sector comparator' that indicates the cost of public provision and is used as a benchmark for determining whether the best private sector bid for a PPP contract offers better value for money for the government.

public sector, but that it represents one of the largest ongoing rip-offs of public money by private concerns of the last century and serves the current government's ongoing attempt to hide massive levels of debt" (ibid).

PSIF II TA also introduces other measures that promote public support of private initiatives. If government insists on providing subsidies to targeted groups (below poverty line groups, for e.g.), the report states, then government can subsidise these users through paying the private operator upfront, providing tax waivers, or buying the service from the private operator at a fixed price and then passing it onto targeted consumers at a lower price. This would ensure reduction in private operators' risks so that they do not lose out on profits.

Following PSIF II, several state and union ministries and departments of the government have made significant efforts to mainstream public-private partnerships by taking loans and grants from the ADB. In 2006, ADB provided $3 million in technical assistance (TA) to the Government of India to set up PPP cells in 14 states. The ADB assistance will help these ministries develop the capacity to prepare, evaluate and appraise PPPs in infrastructure and improve monitoring of progress of the partnerships through comprehensive databases. The assistance will also integrate best practices garnered from such partnerships. New urban projects are being implemented in several states of the country such as Madhya Pradesh, Uttaranchal, and Jammu and Kashmir, where the loan conditions stipulate introduction of PSP in provision of basic services. The ADB aims to double its financial spending in urban projects with the aim of promoting PPPs over the next 5 years (MoUD Secretary speech, Jun 2007). One such project is the $2 million TA grant to help the GoI increase cooperation between the public and private sectors in infrastructure development (ADB website, November 2007). The ADB has also proposed a new Advisory and Operations Technical Assistance (ADTA)[23] for $1million in 2008 promoting PSP in urban basic services and infrastructure. The proposed ADTA will complement the ongoing ADB TA for mainstreaming PPPs at the state level (via the establishment of PPP cells as mentioned above) by its specific focus on promoting PPPs at the local level[24].

Government policy relating to PPPs in urban infrastructure seems to be secure in the belief that PPPs can address the infrastructure deficit in the country for all groups, including the poor. The 12th Finance Commission recommends that at least 50% of grants provided to states for ULSGs should be earmarked for solid waste management through PPPs[25]. Whether this has been implemented is not known since there is no process identified for assessment. Chapter 11 of the Eleventh Five Year Plan (July 2008) recommends full cost recovery for PSP in water and other sectors. Mukhopadhyay (2008 p. 2) problematises GoI's approach to PPPs stating that the current focus is on using PPPs to get commercial revenue via user fees rather than improving services or accountability. He goes on to explain: "Infrastructure is not where you raise revenue; that is a function for taxes. Infrastructure is where you spend those taxes…" Additionally, weak regulation in this sector means that government has not put in place minimum performance standards for private operators or established penalties for defaulting on performance standards. *PPPs therefore fail to be evaluated according to the quality and coverage of services they provide*. Given the focus on generating commercial

[23] An ADTA is given as a grant to advise during project implementation. A Technical Assistance (TA) grant is given to design a project prior to its launch.
[24] This will be via the provision of PPPs in utility services and the development of (managerial and financial) capacity to manage local borrowing.
[25] 6 Mega cities are not eligible to receive these grants for SWM as they are capable of raising funds on their own.

revenues, it is urban poor groups who tend to be hardest hit when PPPs are established, as Part II analyses in more detail.

Despite policies favourable to PPPs, when governments change, policy often changes with them. This is one of the big frustrations of IFIs and they work to dispel this through interventions aimed at making these 'transient' policies more permanent, as the next section describes.

2.3 Designing model policies and legislation favouring PSP in urban infrastructure

In addition to helping design specific PPP projects, the IFIs have worked with GoI to systemize this practice by facilitating legislation and policies that promote PPPs. The ADB (2005) has expressed the intention of developing written policies supporting PSP and using these policies as basis for legislation. In the PSIF II TA draft policies were prepared by consultants in the key sectors of roads, urban mass transit, and water and sanitation, in close consultation with ministries of finance, infrastructure and urban development of the states of Gujarat, Andhra Pradesh, Karnataka and Madhya Pradesh. Further, the TA has drafted general legislation for PSP in infrastructure for Karnataka and Madhya Pradesh and provided the drafts for consideration by the state government. In 2007 however the GoK opted to roll out an infrastructure policy with a strong focus on PPP and not a legislation as the former has a less rigorous procedure, with less political scrutiny, in order to be sanctioned[26] than the latter.

A key strategy of the TA is to compare legislation and policies in different states with respect to advancing PSP in infrastructure and recommend why and how certain legislation can serve as a model. For instance, the PSIF II TA suggests that the Andhra Pradesh Infrastructure Development Enabling Act (IDEA) 2001 can serve as a model for other states as it includes many incentives that would be provided to private developers as provisions of the Act itself. It also defines ten types of concession agreements covered by the Act, and makes provision for a Conciliation Board and an Infrastructure Fund that could function as a separate body with borrowing powers. The TA also points out areas within existing legislation, which need to be amended. For instance, it (unfavourably) compares the Gujarat Infrastructure Development Act of 1999, which limits government support for PSP projects to a maximum of 15%, to Madhya Pradesh which does not have legislation with a restrictive ceiling on subsidy contribution by government and has given as much as 63% subsidy to the private developer of a road project.

The WB has pursued similar policy prescriptions and even amendments to legislation in the Karnataka Water and Urban Reform and Management Project in Karnataka. In an earlier avatar (Project ID No. INPE67502 — 1999-2000) this was to be a combined urban and water sector reform project, introducing new methods and performance indicators for service delivery based on private sector contracts to water utility operators. An initial Project Information Document (PID) prepared in 2000 (Report No. PID7899) by the WB identified a "weak" enabling environment for PSP in the provision of urban services and suggested that until GoK and some of the ULSGs selected for investment undertake some "upfront preparatory work" to rectify this, the project could be shelved. The following changes to encourage an "enabling" environment were introduced in quick succession by GoK via the creation and amendment of several

[26] A policy needs the approval of Cabinet but is not raised in the State Assembly for discussion unlike legislation.

policies/legislations[27]. These encourage PSP in some aspects of service provision, for instance, by 100 percent metering and pricing that permit full cost recovery (GoK Urban Drinking Water and Sanitation Policy May 2003), and giving PSP operator consultants the powers to disconnect public taps to reduce non-revenue water (GoK Municipal Corporation Water Supply (Amendment) Rules Jan 2005). Further, they concentrate regulatory, supervisory and planning powers within the State government (GoK Urban Drinking Water and Sanitation Policy May 2003).

Seemingly satisfied that an "enabling" environment had been created through these policy and institutional reforms, the project was split into two viz., Karnataka Urban Water Sector Improvement Project (KUWASIP) and Karnataka Municipal Reform Project (KMRP) which were signed in 2005 and 2006 respectively by WB and GoK. Under KUWASIP six studies have been prepared by a series of consultants. They include proposals for establishment of a State Water Council, developing water and sanitation sector investment and tariff frameworks, and a legal and regulatory framework. Despite this having the potential to critically shape the institutional, regulatory, financial and legal frameworks for urban water and sanitation in the entire state of Karnataka, neither the draft nor final reports of these studies have been made public. All these legislative and policy reforms reveal a growing convergence among the IFIs and policymakers, particularly in reform states, that local governments must outsource many service delivery functions to the private sector.

2.4 Enriching consultants who typically build opportunities for the private sector in the name of capacity building

The emphasis on PSP in urban infrastructure and services has driven a number of IFI-sponsored projects focused on building local government capacity in certain aspects, such as property tax reform, measures for cost recovery, accounting systems, PPP structuring and implementation, and enforcement of PPP contracts. All of these create opportunities for the private sector in urban infrastructure. For instance, the WB (2004) urges computerization of the accounting system and the introduction of a double entry accrual book keeping system ostensibly to introduce greater transparency in ULSGs. However, a closer reading of the meaning of "transparency" indicates that the WB has directed this reform at making the asset structure and the revenue streams of ULSGs more transparent to investors so they can get credit ratings and subsequently raise funds from the market (Vijayabaskar and Wyatt 2005; Ghosh 2006).

In most, if not all, cases, contract consultants are engaged to provide the above-mentioned services raising the question of whether and how they actually strengthen and institutionalize capacities within local governments, and whether the consultant product matches the needs of local government officials. In the KUDCEMP, inadequate understanding of the local topography by foreign consultants led to problems with the underground drainage system. Often, the same consultants are appointed by the central and state governments to prepare loan and tender documents, policies and legislation, as well as sector strategies. For example, Price Waterhouse Coopers prepared Chhattisgarh's Infrastructure Development Plan, a Vision 2020 Plan for Karnataka (including sector plans) as well as the tender document for the KUWASIP. This raises concerns about possible "cut and paste" from one consultant product to another, regardless of local context or needs.

[27] The ADB was also involved in this process. It funded the PSIF II TA that developed a model urban drinking water and sanitation legislation for Karnataka which very closely resembles GoK's Urban Drinking Water and Sanitation Policy May 2003.

IFIs promote decision making by the same set of big, often international, consultants as these tend to agree upon and advance a certain package of policy prescriptions[28]. In turn, MoUD, GoI empanels these consultants, which privileges them at the expense of smaller, often local, consultants. Sangameshwaran et al (2008) note that the current form of private sector participation in the water sector differs from earlier, both in terms of the nature of contracts and the kind of contractors involved. Increasingly, they argue, a whole package of functions is contracted out instead of piecemeal functions as done earlier. Further, large transnational companies (often with local offices) are being selected for such packages of functions. Paying huge fees to international consultant has been a particularly serious consequence of this trend. In the Delhi Water Board (DJB) case local groups protested high fees to be paid to PWC – the international consultants for the proposed WB aided project, one of the main grounds on which they managed to stall the project. Where international consultants do not provide expertise that local experts cannot (eg. the transfer of technology), activists argue against their employment, as in the KUWASIP project in North Karnataka[29].

Besides relying on consultants, capacity building is also outsourced to a number of select Indian institutions several of which have been initiated with funding from the IFIs. This raises questions of potential conflicts of interest. These institutions include the Strengthening Urban Management Programme (SUM) of the Administrative Staff College of India (ASCI) set up in partnership with the World Bank Institute, City Manager's Association of India and its state level chapters (funded by USAID), and the Centre for Good Governance, Hyderabad set up with WB funding.

3. Integrating IFI reforms through GoI, the Private Sector and other Donors

Since the early nineties, the IFIs have realised the importance of embedding urban reforms within the apparatus of national, state and local governments. This is also refelected in the GoI's approach to JNNURM later on. Such embedding was meant to enable greater sustainability of the reforms. It has also helped the IFIs to renegotiate the earlier image of an external agent infringing on national sovereignty by imposing conditions from outside (Vijayabaskar and Wyatt 2005; Mooij 2005), albeit with only partial success. Critical to the embedding process is the need to get powerful policymakers and policy influencers to not only validate the reform agenda but also assume ownership of the reform effort. IFI interventions have, therefore, been developed with an active role for senior bureaucrats (at all tiers of government) in both design and implementation. These roles come with a slew of incentives like new avenues for mobility, travel and higher incomes (e.g., working with the WB during service and after retirement). In addition, the burgeoning private sector, following the liberalisation of the economy, has contributed complementary interventions to the pro-private sector reforms advocated by the IFIs.

The IFIs overall strategy for building policy agreement includes interventions at different levels of government. We discern three main types of interventions at different tiers of government. The first is national level interventions. These are of importance because the Union Government plays a large role in planning for economic growth — identifying sectors, detailing policy prescriptions, and to a large extent being in primary control of allocating the financial and other resources to implement its policies. While the states have policies of

[28] A new report by the WB on Public Financial Management and Accountability (PFMA, Jan 08) for local governments promotes electronic procurement as well as an improvement in the quality of technical specifications. This reinforces the bias towards hiring large international consultants who fulfill these criteria while seeming to keep out smaller, domestic firms.

[29] In the KUWASIP, grassroots activists maintain that Rs 260 million has been paid to the private contractor, CGE/Veolia, for distributing water. This is a high amount considering that the government has provided the entire infrastructure, including bulk water and water distribution does not involve the transfer of any special technology.

their own, they tend to follow the lead set by the Union Government. The second is state level interventions, typically by developing a pilot project in a state and then scaling it up, over a period of 5-10 years, across the state. State level interventions are often pioneered in certain states that are known for their reform orientation, like Karnataka, and then emulated in other states over a period of time. The first two approaches are the oldest and have worked in tandem to do the "preparatory work" for putting in place PSP in urban infrastructure. Several examples of these are found in Sections 1 and 2 of this paper.

Recently, national level interventions have entered a new stage in their evolution with the launch of a systemic and comprehensive mission for implementing urban reforms nationally. Called the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the JNNURM is a national programme of the GoI that has been designed and implemented with support from IFIs, bilateral donors and the private sector.

The third type of intervention focuses on cities themselves, including smaller cities, and encourages local lobby groups and pro-reform bureaucrats to compete with each other (much of it using their own initiative) to undertake reforms in their cities. While only beginning to happen, we speculate this will be a focus area of the IFIs in the future.

Below we describe via two cases how state level (KUDCEMP and KMRP) and national (JNNURM) interventions have served to embed a policy shift that favours PSP in infrastructure and the key players that animate the debates and practices in each one. Perhaps more crucially, we explain through the use of a diagram the processes by which IFI's state level interventions are linked with national level interventions using cases from Karnataka. We end this section by briefly touching upon the possible focus of IFI strategy and project attention in the future — at the local level.

3.1 State level interventions: the case of KUDCEMP and KMRP

The growing fiscal strength of state governments and their responsibility for economic growth and urban reforms have prompted the IFIs to increasingly focus attention on building agreement for their policies at the regional level. IFIs give particular importance to initiating pilot projects at the state level, constructing these pilots as best practices, and creating agreement within the State regarding the need to scale them up through workshops, training, and field trips (both domestic and international). This move to State level extends the reach of reforms to the regional level.

The Karnataka Urban Development and Coastal Environment Management Project (KUDCEMP) was launched in early 2001 with a loan from the ADB[30]. The loan supported improvement of basic services and essential infrastructure (especially water services, roads, and drainage) in ten coastal towns in West Karnataka. A set of institutional and financial reforms were made a condition of the loan, and these reforms were committed to by all three tiers of government. Important assurances given by GoI and GoK for KUDCEMP included a commitment to execute the policy, institutional, and financial reform measures in accordance with the agreed upon timetable, and to execute the revenue improvement actions and devolution of intergovernmental resources for the project towns[31]. Besides a number of taxation related measures to enhance revenue[32] in project towns, GoI and GoK committed to (a) reducing non-revenue water to no more than 25 percent by no later than July 2005, through measures such as improvement of collection efficiencies to 85 percent

[30] KUDCEMP is the second ADB-funded project in Karnataka and represents a scaling up from the first project, KUIDP, which supported infrastructure improvements in 4 towns.
[31] Report and Recommendations of the President to the Board of Directors Sept 1999
[32] These included (a) comprehensive reassessment of properties and the levy of taxes on such properties; and (b) indexing rents of municipal properties with market rents.

and implementation of a water supply disconnection policy for those who do not pay; and (b) increasing water tariffs by an average of 50 percent for all consumer categories by April 2001 and 100 percent on the then prevailing rates by April 2005. The state also committed to ensure that the proposed increased water tariffs included a drainage surcharge to cover O&M costs of the sewerage systems in all project towns. While the targets for reducing non-revenue water and implementation of a water disconnection policy were not achieved (in large part due to local resistance), a drainage surcharge was levied and GoK has increased tariffs in Mangalore by nearly a hundred percent since September 2007[33]. The state's role was clearly one of facilitating financial and other reforms so as to improve the financial sustainability of the project. It is noteworthy that through the implementation of KUDCEMP locally, the ADB sought to leverage reforms at the Central and state government level.

In Coastal Karnataka, particularly in the Municipal Corporation of Mangalore, KUDCEMP had to confront a highly literate and aware citizenry and councilors who were unhappy with several aspects of the project. The NGO Forum in Mangalore, a coalition of CSOs, formed a smaller NGO Task Force to counter the arguments of ADB and campaign for reducing project costs including interest and dollar rate fluctuation. Mangalore City spends almost 50 percent of water supply costs recovered from consumers on repaying the ADB loan (*Down to Earth* Sept 30, 2008). The NGO Task Force held regular weekly meetings and met with officials from KUIDFC, councilors of the Mangalore City Corporation and others to convey their views. In 2002-03 councilors raised the issue of high cost of the project loan in the Mangalore City Council and urged that alternative and less expensive means of funding, such as from nationalized banks must be examined. Ignoring these complaints, the project continued and was even scaled up.

Deciding that municipal reforms required expansion to other municipalities in the state, the *Nirmala Nagara* project was launched by the Directorate of Municipal Administration (DMA) in Karnataka. It aimed at bringing about municipal reforms in 57 ULSGs in 2001-2002. With funding from ADB through KUDCEMP, a Municipal Reforms Cell was set up to track, monitor, and encourage the progress of reforms in smaller towns as part of the *Nirmala Nagara* project. Subsequently, officials from the KUIDFC, the DMA and the WB started negotiating for the Karnataka Municipal Reforms Project (KMRP) that would further scale up the impact of KUDCEMP and *Nirmala Nagara* project with funding through a loan from the WB. While the WB was most interested in pushing the municipal reform component in Karnataka, the GoK was more interested in support for municipal investment (Interview KUIDFC official). Through KMRP, the WB tied municipal reform to municipal investment support. The project has three main components: 1) Institutional development which entails carrying out reforms in 169 towns 2) Municipal investment support in 32 towns with the focus on raising funds from the market for infrastructure, accounting and tax related reforms, and 3) Bangalore Development which includes construction of roads, underground drainage and pro-poor sanitation in the Greater Bangalore area. The IFC and private sector components, though present in the initial project design, were later dropped due to local opposition.

Further, under KMRP, two crucial TAs were prepared by external consultants that will significantly impact financial and land management policies in urban areas across the state. One of these is an Urban Finance Framework and Design prepared by CRISIL which again proposes a series of reforms for all urban areas in the state of Karnataka, except for

[33] There have been protests from various groups in response to the tariff hike. Due to these protests, the BJP ruling party decided to marginally reduce domestic water tariffs at an all political party meeting in June 2008. This marginal reduction is now being protested by political parties who are demanding that water tariffs be lowered to pre-September 2007 levels.

Bangalore (Aug 2008). The proposed new urban finance framework promotes privatisation of basic municipal services and aims to create more opportunities for market borrowings that progressively reduce the "dependence" on funding from state and central governments. It even recommends the conversion of state grants into loans if certain suggested performance criteria and rating mechanisms are not met with (Final Report - Executive Summary Aug 2008). Of concern is that this framework outlines a set of criteria for the State Finance Commission's (SFC) allocations to ULSGs that seems biased towards larger corporations / towns and reduces the importance given to 'backwardness' by the 1st and 2nd SFC allocations. For instance, the 5 criteria identified as a basis for transferring SFC allocations include population (40% weightage), area (15% weightage), illiteracy (10% weightage), road length (15% weightage), and the extent to which property tax covers the normative O&M of ULSGs (20% weightage). The weightage given to illiteracy has been considerably reduced from 33% in the previous SFC recommendation to just 10%. Such a formula seems weighted in favour of larger, more populated, and less backward towns[34]. This framework is yet to be approved by the constitutional body the 3rd State Finance Commission and the UDD, and there are indications that it is not going to be approved or discussed by the State Legislative Assembly or any City Council. The second TA sponsored by KMRP, the State Urban Land Management Framework, proposes reforms and policies for land management across the State. It is prepared by STEM consultants. While a draft report was shared with State Government in mid- 2008, it has so far not been made public.

While investment support in KMRP is only for 32 towns, institutional reforms cover 169 towns and other reforms (such as land management and financial reforms) cover all urban areas of the state falling under the jurisdiction of the DMA (i.e. around 210 small towns). The spread of reforms will be facilitated by expanding the Municipal Reforms Cell. The Municipal Reforms Cell is currently composed of KUIDFC officials who report to the DMA and Urban Development Department (UDD). Besides developing benchmarks for and indicators of progress in reforms, the Reforms Cell also houses a comprehensive database relating to budgets, audits, and accounts related information. It completely centralises management in a manner that opposes the concept of decentralisation as spelt out in the 74th CAA. Decisions in this Cell are brokered and implemented by a few bureaucrats, project consultants and WB officials and it does not lend itself to public scrutiny. KMRP also enters into an MoA signed by the concerned ULSG, UDD and KUIDFC, and the concerned water and sewerage Boards as evidence of the ULSG's commitment to undergo reforms.

As the case study illustrates, the aim of these projects seems to be to give loans to local governments for improvement of infrastructure so that the services can be contracted out during construction and ULSGs can ultimately move towards privatisation of services, especially where there is no local opposition to this[35]. Project loans are made conditional on implementation of municipal and state level reforms. Project details are typically guided and prepared through numerous TAs and consultancies which are changing the legal and regulatory face of not only the project towns but also the rest of the state. A clear beneficiary of such infrastructure projects are corporate groups which get the lucrative contracts, and provide the materials and support services for such projects. In KUDCEMP it was Dalal Consultants and the engineering and construction firm of Binnie, Black and Veatch.

We trace an emerging pattern of convergence of ideas and agendas in the race for reforming local governments in the country. While such processes are clearly wedded to sustaining a

[34] As per the recommendations of the State Urban Finance Framework Design (2008) 213 smaller ULSGs in the state receive 64% of SFC allocations for untied grants in 2008-09. The 9 municipal corporations receive 36% of SFC allocations, with the Greater Bangalore City Corporation receiving an overwhelming 54% of the proportion for municipal corporations.

[35] The 32 towns covered by KMRP's municipal investment support component are all smaller towns with lower literacy levels, which might indicate less resistance to the project.

high rate of GDP growth, they also emphasise an increased share for the private sector in the field of municipal services. Indeed, commercialisation of municipal administration, including the outsourcing of auditing, planning, accounting, and environmental engineering tasks, has already increased. Therefore, several years after the construction of new water supply and sewerage systems under KUDCEMP, local and global private sector water supply companies are lobbying for a proposal for a 'cluster city' approach to delegated management contracts for operations and maintenance (O&M) of these facilities. Currently GoK is scaling up reforms begun under KUDCEMP and KMRP to 146 non-IFI funded towns — it has awarded packages of towns to consultants to prepare city level investment plans (CLIP) for identifying infrastructure needs. This will be funded by UDD, GoK through KUIDFC. Nine other states have initiated similar projects; five are supported by the ADB and four by the WB[36].

The table below identifies KUDCEMP and KMRP, the pilot best practice they represent and details on their scaling up at the state and national level. While these interventions are focused at the State level, the scaling up has in some cases extended to the national level.

Table No. 1 Promoting pilot projects as best practices to be emulated state-wide

Name of IFI project and location	Purpose of pilot	Scaled up to state level	Upscaled to national level
KUDCEMP (ADB) Karnataka	- State and ULSG level urban sector reforms	- Nirmala Nagara and Municipal Reforms Cell	- Cluster city development model
KMRP (WB) Karnataka	- Municipal reforms - Urban Finance framework	- Karnataka Urban Finance framework -Karnataka Urban Development Strategy[37]	- India Urban Strategy 2025 - Mega Cities Strategy[38]

Source: Own compilation

3.2 National level interventions: The case of the JNNURM

The launch of the JNNURM in December 2005 marks a watershed in municipal infrastructure provision. Prior to the JNNURM, institutional and legislative reforms were often brought in as project conditions or as TAs linked to loans and grants. But now, the JNNURM has brought in a set of urban reforms to be applied systematically across 63 cities in the country. Subsuming many existing government schemes, it makes the allocation of grants conditional on adhering to a set of financial and governance reforms at the state and city level and creates a more enabling framework for private sector in investment and delivery of urban services (ADB JNNURM TA 2006). A programme with similar reforms called the Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT) has been put in place for all other small and medium towns.

Continuing the approach set in place by the IFIs, the JNNURM as a programme has a 'project' focus with typically no relation with past projects or ongoing projects in other sectors (Interview urban planner, April 2008). It privileges infrastructure creation over

[36] The five states supported by the ADB are Bihar, Rajasthan, Uttaranchal, Kerala, and Jammu and Kashmir. The four other states funded by WB are Tamil Nadu, Andhra Pradesh, Gujarat and Madhya Pradesh.
[37] Price Waterhouse Coopers (PWC) consultants prepared the Vision 2020 plan for Karnataka and also drafted an Urban Development Strategy.
[38] Funding for a National Urban and Mega Cities strategy 2025 has been routed through the Planning Commission from WB, Cities Alliance, WSP and USAID.

maintenance related issues and adherence to specified reforms over performance accountability in service delivery. The ADB and WB are particularly involved in strengthening and expediting the urban reforms process of the JNNURM by providing technical assistance support to states and cities to undertake the reforms, and by supporting mechanisms for monitoring and evaluating progress of reforms. As the table below reveals, most of the financial and governance reform and management prescriptions mandated by the JNNURM are similar to those promoted by the IFIs (described in sections 1 and 2). As such, we argue that the IFIs have significantly influenced the design of the JNNURM.

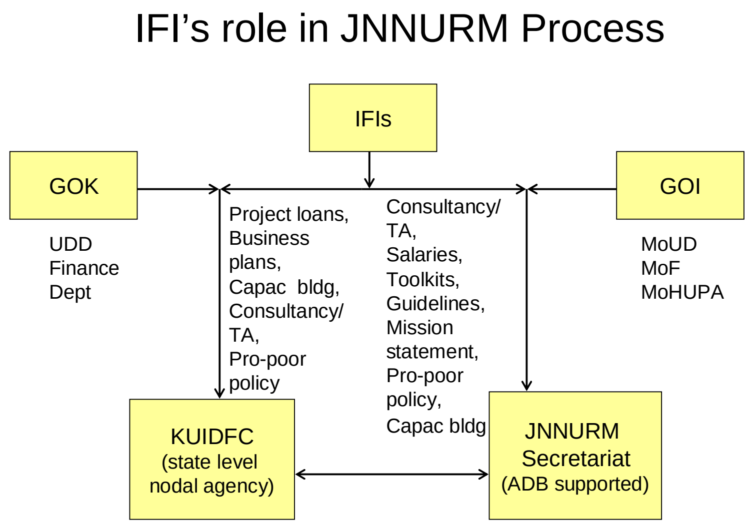
Table No 2 The Role of ADB and WB in Urban Reforms under JNNURM

IFI recommended state and local reform options	**JNNURM (2005-12)**
Repeal of Urban Land Ceiling Regulation Act	Repeal of Urban Land Ceiling and Regulation Act
Rationalise stamp duties and reduce rates in a phased way	Rationalise stamp duty in phases to bring it down to no more than 5% by end of JNNURM
Phase out rent control laws; Indexing rents of Municipal properties to market rents	Reform of rent control laws; Introduction of computerised processes of land registration
Unbundling municipal services to create user charge revenue streams for each service	Different depts. handling diff services, separate accts maintained for each
Enabling a shift to Capital value based system of property tax; Improve collection efficiency, link property taxes with market prices	Reform of property tax so that it may become a major source of revenue of urban local bodies, target set collection efficiency reaches at least 85% by the end of 11th Plan period
Improve cost recovery of local utilities- reduction of non- revenue water to 25% and increase in tariffs by 50% by 2001 and 100% by 2005 in KUDCEMP; link taxes and charges with services provided	Levy of 'reasonable' user charges, with objective of full cost of operation & maintenance collected by end of the 11th FY Plan (i.e. 2012)
Introduction of double entry accrual accounting (WB 2004)	Introduction of double entry system of accounting in urban local bodies / parastatals
Community Support fund & community infrastructure guarantee facility (WB 2002)	Community Participation law and community participation fund
City Development strategy and City Level Investment plan	City development plan

Source: Compilation from WB, 2004; WB, 2002; ADB, 1999; ADB, 2001; JNNURM Guidelines

The diagram below (see fig no 1) outlines the role of the IFIs in the JNNURM process using the example of Karnataka.

Fig No. 1



3.2.1 *Reforms that encourage borrowing infrastructure funds from the market*

The JNNURM aims to encourage entry of private capital into urban infrastructure by part-grant financing for JNNURM projects by the GoI, a move that is intended to increase project bankability. Similar to corporate financing, under JNNURM, central and state funding is viewed as government equity and not as grants[39]. The gap which arises from the partial financing impels city governments to leverage funds from market sources. In JNNURM, funds are routed from central government to the UDD at the state level, from there to the designated state level nodal agency, and finally to the JNNURM cities. While no funding comes to state governments, they are required to commit to certain reforms as a condition for receiving central funds. *Thus JNNURM is structured by GoI to leverage reforms from state governments in a domain (i.e, the urban sector) which the Constitution does not place under central government control without in any way funding the state government.*

There is also an apparent split between the two sub-missions of the JNNURM: Urban Infrastructure and Governance (UIG) and Basic Services for the Urban Poor (BSUP). They involve separate ministries, mandates and differing levels of IFI involvement. This split possibly ensures that the higher risk BSUP component is kept apart from the more lucrative and less risky UIG so that it can easily attract private investment.

3.2.2 *Reforms encouraging PPPs*

The JNNURM strongly emphasises using PPPs in urban infrastructure and several toolkits have been created to guide cities in complying with this goal. The IFIs and USAID have played a critical role in helping in the design of policy guidance notes for the JNNURM. Cities, for instance, need to submit detailed project reports (DPRs) for each project submitted for JNNURM funding approval. The DPR toolkit makes detailed recommendations on PSP options in line with WB and ADB policy prescriptions (www.jnnurm.nic.in). These include 1) the formation of a separate legal entity or SPV to run the project and 2)

[39] Interview on television with K P Krishnan, Joint Secretary Dept of Expenditure, Ministry of Finance

management arrangements for the private entity. All the management arrangements suggested involve the formation of PPPs and payment to the private entity for construction and O&M costs. Payment could include the private party directly recovering costs through user charges for a specified long term duration (15-25 years) or the private party being paid a fixed annuity (or fixed rate per unit of service delivery) for its services over the specified term duration. In the latter form, the ULSG can directly recover user charges or retain the option of contracting out billing and collection to a different private entity.

There are several reasons cited in the DPR toolkit for favouring PPPs. Market financing would purportedly support a larger number/scale of infrastructure projects by the city government; provide (an additional) project appraisal by the funding agency and hence contribute to risk reduction for investors and improved project structuring; and create greater project management discipline for the ULSG, especially in the context of O&M management. However, market financing has not panned out on the ground in the way it was intended by the JNNURM. Out of the first 240 DPRs approved until August 2007 there was declaration of intention of exploring PPP option in less than 6% of cases (Discussion with R Joshi, Independent Analyst October 2007). The drive towards market financing has clearly not been followed by city governments exploring PPP infrastructure projects in a substantial way.

Private players claim that there are insufficient financial incentives (like tax concessions) for them to enter urban infrastructure and lack of a proper legal framework to facilitate the design and implementation of PPPs. Only a few States like Gujarat, Andhra Pradesh, Maharashtra and Karnataka have passed Infrastructure Acts under which PPPs are included, and confirmatory changes in the Municipal Acts have not taken place even in these States. Additionally, the private sector is motivated by profit concerns and, with the exception of real estate projects, the returns from urban infrastructure are much lower than opportunities provided by the booming private sector. The huge resistance to large scale land acquisition in recent months has also diminished the interest of private players to undertake large infrastructure projects that include real estate components. Private players' lack of interest in urban infrastructure projects seems to indicate that PPPs in urban infrastructure is more hype than substance and that GoI's intention of leveraging funds from the market under the JNNURM is fraught with problems.

3.2.3 Consultant-driven vision/project plans for the city that exclude citizens participation

The TA[40] for JNNURM funded by ADB (2006) provides $2 million for the formation of a mission secretariat housed within the MoUD. The secretariat is manned by senior consultants of Price Waterhouse Coopers Co. and since mid- 2006 has been closely involved in preparing/revising guidelines and toolkits for JNNURM. These have subsequently been rolled out through pilot projects such as 24x7 water supply schemes (in Mysore) and water supply privatisation or public rail transit schemes such as the Hyderabad Metro.

The WB over the years has lent considerable support to the formulation of what it terms city development strategies[41] which are blueprints that outline a vision for the development of cities backed by capital investment plans. These city development strategies (CDSs) are

[40] The outcomes of the TA are to: (i) identify and address legal, policy and regulator barriers to PPP at selected state and city-levels; (ii) build capacity of local government officials to strategize and plan for private sector involvement in urban sectors (water supply, sanitation, solid waste, and urban transport), which includes PPP structuring, transparent and competitive procurement, implementation, and enforcement of PPP contracts; and (iii) ensure 3 to 4 well structured urban PPPs incorporating private sector efficiencies and capital are brought to financial closure, serving as replicable PPP models for other Indian cities (ADB JNNURM TA).

[41] City Development Strategies were spearheaded by the Cities Alliance, a coalition of donor institutions including the WB, UNDP, and DFID.

supposed to be informed by a multi-stakeholder vision, including civil society groups, urban poor groups and private companies. In practice, however, we find the private sector's voice has been the loudest given the emphasis on forming capital investment plans and the practice of outsourcing CDSs' to private consultants. These CDSs' have in many cases been converted into city development plans (CDPs) and submitted to fulfill the mandate of the JNNURM Scheme. The Hyderabad CDS was prepared in 2003 by Administrative Staff College of India (ASCI)[42], Hyderabad, a management training institute, with funding from the Urban Management Programme of UNDP/ UNCHS. It was submitted with very few changes as Hyderabad's CDP under JNNURM. This actually meant that almost two years later (early 2006) no fresh inputs were sought or incorporated from the public for a city which was to expand into the Greater Hyderabad Corporation just one year later. Despite the lack of public consultations, Hyderabad was one of the first cities to get projects sanctioned under JNNURM in March 2006.

The ADB has also been heavily involved in the JNNURM CDP process as a local planner describes in the case of Chennai (Raman, 2009). The ADB's Cities Initiative for Asia approached GoI requesting to support a new plan making process which would produce real investment plans for cities. GoI agreed and selected Chennai as a model city for this process. The ADB then approached the Chennai City Corporation, and they together contracted two consultants to carry out the Chennai CDP review – GHK and DHV. Interestingly, funds for this purpose were routed directly from the ADB to the consulting agencies.

The preparation of CDPs or DPRs has not contained any explicit role for citizens' participation in violation of the guidelines provided under the JNNURM (Narayanan 2008; Roy 2007; CASUMM 2007). In some cases, donors like the Water and Sanitation Program of the WB have prepared the CDPs themselves (as for Lucknow); at other times consultants like CRISIL have been supported by IFIs and other donors to develop these CDPs. CRISIL, for example, was hired as consultant for the preparation of the Pune Municipal Corporation's (PMC's) City Development Plan in Dec 2005. A journalist and resident of Pune maintains that the CDP preparation was offered to CRISIL without any transparent tender process and the process for drafting the CDP was a façade (Barse 2006). No information on the consultant's TOR or fee was made available although she sought this information under the Right to Information (RTI) Act in early 2006.

The JNNURM has also created a National Technical Advisory Group (NTAG), and recommended that state governments create State Technical Advisory Groups (STAGs) and City Voluntary Technical Cells (CVTCs) purportedly to provide a range of technical capacities at different tiers and to enable greater citizens' participation in urban governance. In most cities, these intermediaries are absent or not functional and there are many complaints from citizens regarding their non-involvement in formulating JNNURM CDPs. Additionally, the basis for selection of these members and their mandate, especially vis-à-vis local governments, is not clear. The NTAG for instance was not given a clear and fixed mandate when they started off with the result that they appeared to create their own mandate as they went along after negotiating with Union Ministries as to what they could do and how they could get it done with Ministry support. Typically there is a high degree of representation from the private sector (especially with regard to urban infrastructure) and members have a close working relationship with IFIs. For example, NTAG arrived at a decision to ask USAID's FIRE (D) to prepare eight JNNURM reform primers (Minutes of NTAG Meeting www.jnnurm.nic.in). This raises serious questions of accountability as these

[42] ASCI has recently signed a Memorandum of Agreement with India PPP Capacity-Building Trust (ICAP) to develop the capabilities of various government and non-governmental organizations for implementing infrastructure projects via PPPs. ICAP has been set up by the Infrastructure Development Finance Company Ltd. (IDFC).

meetings are not open to public participation. It also raises issues of conflict of interest given the private sector and IFI's financial stakes in urban infrastructure.

3.2.4 Promoting a parallel governance structure dominated by bureaucrats

Similar to the IFI model of creating intermediary institutions and concentrating powers of decision making within them, the JNNURM mandates the creation/nomination of a state level nodal agency (SLNA) by the state government to route JNNURM funds to cities and be responsible for overall project monitoring. It also creates a Central Sanctioning and Monitoring Committee (CSMC), which has the power to accept/reject projects or send them back for revision. This increases central and state government controls over the selection and design of local projects. Thus local governments do not focus on designing projects based on the needs of the electorate but along the criteria and priorities articulated by the JNNURM Mission (Interview with urban planner in Bangalore April 15 2008). The JNNURM also advises the establishment of project management units (PMUs) and project implementation units (PIUs) to build the capacity of cities for management and implementation of JNNURM projects and reforms. In addition to these, the JNNURM also specifies the creation/nomination of National and State level Steering Committees and several appraisal institutions to review CDPs[43]. This has had the effect of setting up an extremely bureaucratic and parallel governance structure which has a very limited role for elected governments at both state and local levels.

Further, financial support to PMUs and PIUs from GoI is available only for fees for experts and travel related expenses. An easy course of action for cities therefore seems to be hiring consultants to perform this function. Going by past experience, it is likely there will be little internal capacity building of ULSGs. PMUs/PIUs are supposed to be a temporary measure to fill a capacity void in local governments. Over the next few years they are supposed to hand over their functions to staff in ULSGs. However, if there is no money for or importance placed on building capacities within local governments over time, this possibility seems remote.

3.2.5 A deeply flawed programme? Resistance to JNNURM from citizens, state and local governments

Over the last three years since the JNNURM's launch, there have been numerous protests from local groups. While those by citizen and activist groups are better documented, internal protests from within the State and local Governments have been less visible. Protests from civil society groups have addressed what they see as fundamental flaws in the design of the programme, such as lack of role for state or local government and citizens, as well as poor project implementation on the ground. For instance, a Rs 6.55 billion cost escalation has taken place in JNNURM road development projects within the Pune Municipal Corporation due to earlier mis-estimation on the part of a consultant panel while preparing the project. This indicates that private sector involvement does not automatically lead to greater efficiency, especially where specific performance criteria are missing and private contractors are operating in a weak regulatory framework.

Protests internal to government have also dealt with structural design issues as well as implementation issues. One of the biggest complaints from state governments is that the Mission was launched without political consultations and consensus formation among state Governments. The need to de-link the (mandatory and optional) reform agenda from GoI

[43] Some of the appraisal institutions selected by the MoUD are the National Institute of Urban Affairs (NIUA), the National Institute of Public Finance and Policy (NIPFP), and ASCII. In many cases, appraisal is subcontracted further to independent consultants.

funding has also been expressed by States[44]. Underpinning this concern is the requirement for greater flexibility rather than a one-size fits all approach, and the need for (untied) Central support in specific arenas. The Chief Minister of Kerala State in a speech given at the National Development Council in Dec 2006 explained that the JNNURM is causing a fiscal loss to the state of more than Rs 70 billion over the 7- year programme period on account of being forced to reduce stamp duty; this is in order to receive the Central grant amount sanctioned for JNNURM cities, which amounts to only Rs 45 billion[45]. Receiving JNNURM grants forces the Kerala Government both to implement controversial reforms like levy of user charges and reduction of stamp duties and incur fiscal losses which reduce the state's ability to fund social sector expenditure (ibid).

The lack of prior consultations with state governments on the design and implementation of JNNURM has meant that these issues could not be raised collectively by States with the Centre prior to its launch or resolved to mutual satisfaction. Government servants, analysts and activists fault the JNNURM for being a supply-side programme where GoI has decided what reforms need to be undertaken and under what conditions, and which technical assistance and capacity building inputs, such as toolkits and concession agreements, are needed. There has been no local debate or demands from local governments regarding what projects and funds they need. Even identifying the cities selected for JNNURM was done at the central level. This extreme centralisation has pushed ULSGs even further away from the 74th CAA's ideal of decentralising administration and planning so that they can be based on local needs and realities.

While it is important to understand how IFI's state and national level interventions have served to embed a policy shift that favours PSP in infrastructure, what is perhaps even more crucial is to understand the processes by which the two are linked. Figure no. 2 illustrates these linkages (see Fig No. 2).

The institutionalisation of a set of reforms has proceeded at the country level through the JNNURM. While this programme has had the effect of spurring the urban reforms agenda onward, it has remained somewhat confined to the larger cities and the more pro-reform states. Given the higher population growth rates and economic growth potential of smaller towns, IFIs are keen to encourage the embedding of reforms in such cities. This seems to be an IFI focus area of the future and a strategy that we speculate will be developed and implemented over the next several years.

3.3 IFI focus on smaller cities and towns: the wave of the future?

The search for promising new markets has spurred IFI interest in increasing direct lending to cities and smaller towns in the future because cities are major contributors to economic growth. According to a recent newspaper article (*Economic Times,* Aug 8 2008), based on a National Centre for Applied Economic Research (NCAER) study, the top twenty 'boom' cities in India are projected to grow their household income at 10% annually over the next eight years, and they already account for 60% of the surplus income (income minus expenditure) generated at present. Targeting infrastructure lending (particularly to cities) would "maintain its relevance in the changing economic scenario in the region," says an expert group commissioned to chart out a vision for the ADB (ADB, 2007)[46].

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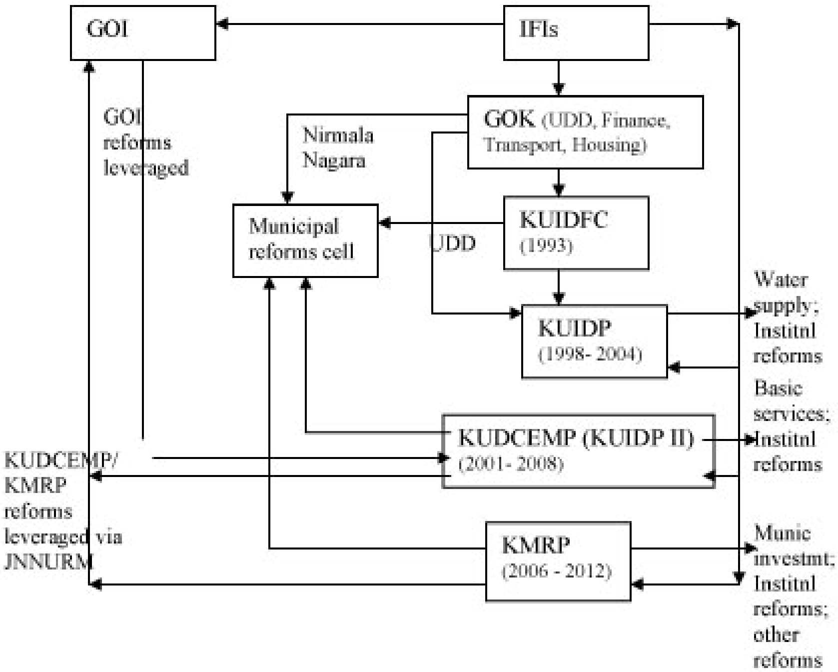
[44] Punjab Government website, www.punjabgovt.nic.in/government/Localgovt/Note_on_NURM.doc

[45] http://www.keralacm.gov.in/pdf/speeches/Speech_Nationl_Devp_Council_09-12-06.pdf

[46] The expert group has, as one of its members, Dr Isher Ahluwalia, Chairperson ICRIER. She is also Chairperson of the recently constituted Planning Commission High Powered Group on Infrastructure Planning and Investment.

Fig No. 2 Linkages between IFI's State level and National level interventions



Timeline of reforms

1) Formation of KUIDFC as nodal agency that bypasses elected local govts. KUIDFC initiates steps for taking IFI loans in priority areas of urban sector.

2) KUIDFC and UDD negotiate with ADB for first urban project in the country – KUIDP.

3) KUIDP: water supply and infrastructure for 4 towns
   - Leveraged institutional reform in water sector (eg, hike in water tariffs in all urban areas of the state)

4) KUDCEMP or KUIDP II: basic services & infrastructure in 10 towns
   - Leveraged GOI reforms
   - Leveraged state-wide institutional reforms (eg property tax rationalization & method of assessment, promotion of metered water supply)
   - Reforms followed through by GOK and scaled up via Nirmala Nagara project (supported by ADB's KUDCEMP) and the Municipal Reforms Cell (supported by WB's KMRP).

5) KMRP: municipal investment (32 towns), reforms (institutional- 169 towns; other -210 towns)
   - Created financial framework and leveraged investment reforms (state-wide)
   - Leveraged land management reforms (state-wide)
   - Creation of Urban Development Policy (state-wide)
   - Leveraged GOI reforms

City governments too are beginning to show more interest in vying for IFI grants. One factor has been the JNNURM which has spurred greater competition among cities to get funds sanctioned and to leverage funds to fill the gap caused by part-grant funding from GoI. The Vijaywada Municipal Corporation for instance has signaled agreement to take a loan of Rs 2 billion from the ADB to complete its JNNURM projects. For various reasons, including the time gap between project design and implementation, Vijaywada officials say there have been escalations in project costs (*The Hindu*, July 24 2008). Since JNNURM has no provisions for addressing these escalations, cities are forced to look towards IFIs to do so.

A second reason is due to contradictions in government policy. To begin with the JNNURM had no stipulations as to which type of projects it would fund and the majority of projects submitted for funding were road construction projects (as high as 60% of CDP costs in some cities). Subsequently, there was pressure on the JNNURM to not approve city road projects as this went against the MoUD's April 2006 National Urban Transport Policy's (NUTP) stated intention to promote public and non-motorised transport. Once JNNURM announced withdrawing support for road projects (post July 07), cities had to look elsewhere to fund these projects. As a senior finance official from the BBMP explained, much time and money had already been spent on preparing the project DPRs and city roads urgently needed upgrading. IFI project loans now seemed to be the obvious choice of funds for city road projects.

The search for new urban locations for industrial investment and new markets has also meant that business groups in urban centres become powerful lobbies demanding better infrastructure. Business groups reinforce calls for minimizing the role of government and enlarging that of the private sector. For example, Infosys, one of India's largest IT companies set up its Global Training Facility in Mysore and the completion of the privately built Bangalore Mysore Infrastructure Corridor, a six-lane super-highway, will benefit them enormously. Infrastructure is one of the most common currencies by which State governments woo the private sector to invest in their State. This sets up a dynamic of competition, the need to act fast to build infrastructure (privately if necessary) or lose out in the race to attract private investment and accelerate economic growth.

However, it is also at the local government level where there is growing opposition to urban reforms as these measures directly impact voters and local councilors. The latest outburst of indignation from people in Mangalore has resulted in repression by the police (*Deccan Herald,* Aug 5, 2008). The protestors were against outsourcing of water supply bill collection by the Mangalore Municipal Corporation and the doubling of tariffs. The tariff hike is a direct result of ADB conditions set down for the KUDCEMP. As the pace of urban reforms gather, protests from groups of different stripes – middle and lower class groups, political parties, councilors and public sector employee unions, among others – will likely increase and delay and subvert implementation in various ways. The proponents of urban reforms have typically not taken this into account. This is largely because there is no understanding of the (intended and unintended) impacts these reforms are having on the ground. Part II elaborates in greater detail the implications of the reform agenda for local governments and local residents, with a particular focus on urban poor groups.

Part II
Municipal restructuring: What does it mean, who does it affect and how

Private services are introduced in urban public sector systems based on the rationale of efficiency in service provision. The focus of the urban reforms agenda at the local level is the dismantling of the public sector "monopoly" in municipal services and the entry of private sector to improve these services. There are several institutional and decision making changes required for the introduction of private sector participation in urban infrastructure. These range from changes in finance and regulatory frameworks to policies and legislation, and the IFIs have played a key role in structuring and promoting them, as we have seen from Part I. These changes have had a significant impact on the structure and functioning of municipal governments and the delivery of basic services, particularly for the urban poor.

While the most visible aspects of this restructuring (and the target for resistance by local groups) include tariff hikes and removal of public stand posts that provide free water supply to the urban poor, there are other serious impacts often not registered. Some of the more important of these are the transformation of decision making processes and structures, the creation of financial models to ensure private investors are paid back first, and the erosion of regional and local democratic processes. The following sections analyze these in detail.

4 The impact of municipal restructuring on basic services

4.1 Targeting large infrastructure projects at the cost of basic services

At the local level, ULSGs are being promoted as purchasers of services (from the private sector) and not service providers and the focus of municipal government seems to be not on providing basic services for all but on commercially viable urban infrastructure projects like those submitted under the UIG component of JNNURM. The table below reveals the skew in project approvals and allocations between Basic Services for the Urban Poor (BSUP) and Urban Infrastructure and Governance (UIG) projects in several JNNURM cities.

Table No 3 The Skew in fund approvals between UIG/Infrastructure and BSUP/Basic Services for the Poor (Rs Million)

City	BSUP/Poor	UIG/Infrastructure	% BSUP to UIG fund approvals
Chandigarh	12.5	11,740	0.1
Kolkata	1,610	70,000	2.3
Jaipur	2,000	44,000	4.5
Ludhiana	1,666.4	20,530	8.1
Chennai	38,870	344,920	11.2
Ahmedabad	9,940	76,200	13
Bangalore	20,000	80,000	25
Hyderabad	50,000	200,000	25
Pune	1,5900	63,490	25

Source: JNNURM CDPs from www.jnnurm.nic.in Aug 2007; Compilation from Narayanan 2008

In all these cities, much less than one-third of the funds were applied for/allocated for BSUP compared to UIG. This is despite the fact that the JNNURM encourages internal earmarking of 20% of city level budgetary allocations (rising to 25% by 2012) for urban poor groups.

There are several concerns with regard to the Poor Budget, as this allocation is known. These centre on whether this target allocation will be met, how cities will be monitored and encouraged for spending this amount, and the actual outcome of this expenditure. In Bangalore, for instance, the city government has difficulties in spending the 18% of its budget that is required to be spent on the welfare of SC/STs [47] and this allocated amount often remains unspent. Further, the continuing deprived condition of many SC/ST households in the city (Kamath et al, 2008) casts doubts on the efficacy of the programs on which these funds are utilized. It is likely that without proper oversight this will be the case for the Poor Budget as well.

Despite claims by IFIs that PSP in urban infrastructure will increase the urban poor's access to infrastructure this has not been substantiated empirically. The Tamil Nadu Urban Development Fund (TNUDF) set up with USAID and WB funds is the first public-private financial intermediary in India devoted to provide finance for infrastructure development to ULSGs in Tamil Nadu without any guarantees from the state government. Vijayabaskar and Wyatt (2005) state that while the TNUDF Annual Report 2004-05 refers to bridging basic infrastructure deficiencies like drinking water, sanitation and stormwater drains, the bulk of the funds have been spent on roads, bridges, bus stations and markets that do not necessarily benefit poorer groups. Moreover, of the 13 ULSGs that received funds, nine are close to Chennai Corporation and the remaining are larger ULSGs. This could well be because smaller ULSGs are less creditworthy (and pose more risk to investors) than larger ULSGs. This has only deepened existing regional disparities between larger ULSGs with greater access to revenue sources and smaller ULSGs with much less scope to raise revenue (ibid).

The dearth of programme funding for basic services delivery has been worsened by the passage of the Union Government's Fiscal Responsibility and Budget Management Act (FRBM Act) in 2003. The aim of the FRBM Act was to rein in fiscal deficit both through reducing expenditure and by raising resources. Policymakers in government, encouraged by the IMF and WB, believed this was the key to achieving sustainable economic growth and managing inflation. Since 1991, the IMF and the WB have been making reductions in the fiscal deficit a condition of loan agreements to India[48]. Subsequently many states followed suit and implemented their own FRBM Acts. This has had the impact of reducing development expenditure by Central and State governments (CBGA 2008). GoI's development expenditure as a proportion of GDP declined in the post FRBM era from 7.5% in 2002-03 to 6.4 in 2005-06 (ibid). In almost all sectors there has been a decline in development expenditure in the States (see table below).

Table 4 Decline in development expenditure in States post FRBM Act

Sector	2002-03 (% OF GDP)	2005-06 (% OF GDP)
Education	2.50	< 2.20
Health	0.60	0.49
Agriculture	0.67	0.58
Overall social sector	4.5	4.1

Source: Centre for Budget and Governance Accountability 2008

[47] For more information see BMP budget documents from 2001-07 collected by Dalit Bahujana Sangha (DBS) and disseminated at a public meeting on Jan 6, 2008 at the Jnanabharati Bangalore University Campus. The DBS argues that the amount allocated is left unspent, unspent amounts are not carried over as is mandated by law, and there are major irregularities in how allocations are utilized.

[48] In late 2004 the World Bank released its report on fiscal reforms in Indian states just before a similar document was due to be released by the Union Government in order to make an early contribution to the debate and help set the agenda for reform.

This decline in spending on basic services corresponds with a tremendous backlog of basic service delivery in cities across the country. As of March 2007, the Union Ministry of Housing and Urban Poverty Alleviation (MHUPA) Housing and Habitat Policy 2007 reported a 99% shortage (24.7 million units) in Economically Weaker Section (EWS) & Low Income Group (LIG) housing. The Mid-Term Review of the Millennium Development Goals (MDGs) conducted by the *Wada Na Todo Abhiyan*[49] Campaign reports that the GoI has not been able to achieve significant targets in poverty alleviation. Using data from GoI surveys, the report states that over 55.5 % of the urban population lived in slums at the time of the 2001 census, only 33 % of the population has access to improved sanitation in 2005-06, and only 17.3 % of women enjoy wage employment in the non-agricultural sector. Many of the critical universal coverage targets for basic services, like water supply and sanitation, have been pushed back to the end of the 11th Five Year Plan at the central level and in states like Karnataka proposed to be achieved only by 2017 (end of 12th Five Year Plan). This is while the GoI is intending to increase infrastructure expenditure from the current 5% per year to 9% per year of GDP by the end of 2012.

At all three tiers of government, strong signals are being sent regarding the dilution of state responsibility to ensure the supply of basic amenities to all; simultaneously, resources are gradually being diverted to attracting PSP and making infrastructure projects commercially viable. The development of a Model Municipal Law (MML) by GoI indicates the Union Government's intention to advance commercialization of infrastructure operations and bring in PPPs at the municipal level. Through the MML, the USAID, supported by the IFIs and private consultants, proposed a market- oriented legislative framework to formally introduce the private sector in municipal operations. Key features include: 1) Involvement of private sector, NGOs and CBOs in the provision of services; 2) Involvement of private sector, NGOs and CBOs in the collection of user charges; and 3) User/service charges to reflect O & M and capital costs. States such as Nagaland, Sikkim, West Bengal, Kerala and Bihar have prepared and passed legislation on this basis. Karnataka's Urban Drinking Water and Sanitation Policy (2003) is an important indicator of support for such an agenda at the state level. The policy argues for full cost pricing of water and the introduction of PSP in the longer term, and encourages "preparatory work" for PSP in the shorter term. At the municipal level, minimal increases in spending on basic services and a reduction in service subsidies signals retreat of the local state from ensuring the supply of basic amenities to all.

4.2 Acquisition of land for large infrastructure projects displaces poor groups

One of the most serious consequences of promoting large infrastructure is the displacement of urban and rural poor when land is acquired in and around cities for such projects. The state is heavily implicated in such land acquisition as its contribution to IFI funded and other infrastructure projects is often equity in the form of land. Parastatal agencies equipped with state powers of eminent domain and backed by draconian legislation are the ones who typically acquire farmers' lands and village common lands for these projects. Grabbing land from poorer groups for large infrastructure that usually does not service them both displaces them and has severe consequences for their livelihoods. The table below reveals the extent of land acquisition for various large infrastructure projects from villages in and around Bangalore in the last few years. Land was acquired by the state agency, the Karnataka Industrial Area Development Board (KIADB), using the power of eminent domain.

[49] Don't break your Promise campaign- a coalition of 3000 mass based and citizens' advocacy organizations.

Table No 5 Land acquisition, displacement and destruction of livelihoods in Karnataka

No. of villages	Projects	No. of farmers / labourers displaced	Land acquired (acres)
111	Creation of Greater Bangalore	6,30,496	2,00,000
136	Development of 5 townships + Ring Road	84,430 18,000	45,450
Not identified	KIADB	Not known	25,000

Source: Compiled from www.bmrda.kar.nic.in January 2007

While land acquisition for Special Economic Zones (SEZs) has attracted much visibility due to recent protests in Nandigram and other places, land acquisition and slum evictions for urban infrastructure has received much less attention. In many large cities, infrastructure projects, particularly road and transportation projects, are receiving increasing investments from the state, due to which pressure is being generated for clearing existing slum pockets. Local activists in Chennai argue that the WB, through its numerous loans to Chennai City Corporation, has been consistently guiding the city's development trajectory. In Chennai, more than 1 lakh people have been resettled on the peripheries of the city by the Tamil Nadu Government in the last eight years (Chennai Field Study Report P. Rajan et al, 2008)[50]. While the Tamil Nadu Government claims that resettlement will result in a city without slums and access to basic services for slum dwellers, in reality slum evictions from central areas release valuable land for public-private development, such as metro rail, waterfront development and commercial development. Resettlement locations also typically have less access to basic facilities and result in reduced livelihood opportunities due to their locations far away from core city areas (ibid).

Acquiring land for infrastructure development is especially problematic in light of the minimal public consultations and non-transparency of these projects. Lack of local awareness and broader public participation in design and implementation of infrastructure projects seems to be less important than ensuring their commercial viability as the next section describes.

4.3 Achieving commercial viability of paramount importance

The numerous reforms, policies, and financial and technical support for enabling PSP in urban infrastructure, as described in Part I, have led to an almost exclusive focus on achieving commercial viability of infrastructure projects at the expense of enhanced quality and coverage of services (especially for vulnerable groups). Commercial viability is achieved through a variety of measures: the introduction of user charges based services, tariff hikes, unbundling of urban services and elimination of cross-subsidies, property tax reform, and credit enhancement mechanisms. What are the implications of these measures for urban poor groups?

There is an intense drive to ensure project cost recovery and raise project revenues by hiking tariffs and, in some cases, making users pay even for capital cost recovery, as in the

[50] Moreover, a list of nearly 74,000 slum households who would need to be evicted since they have encroached on a variety of lands such as government lands, river banks, roadsides / pavements, and corner plots of land has been identified by the Tamil Nadu Government. This list of households now also features in the recently approved Chennai Master Plan 2026.

GBWASP. This hits the urban poor hardest as they have to confront increases in tariffs and user fees when they already pay more on a unit basis for services than the middle classes. Both WB and ADB have been promoting cost recovery through 100% rational user charges because "without improved cost recovery, the quality of utility services will not improve and opportunities for engaging the private sector in these utilities will be limited" (WB, 2004). Taking the IFI argument further, Mathur (2005) argues that underpricing of basic services has caused immense damage to both consumers and service providers and led to poor services, financial strain on the service provider, and difficulty in attracting private investment. While many people would agree on the need to increase tariffs for the subsidized middle classes, there are, however, serious concerns about whether higher tariffs and user fees actually result in service improvements across the board, and especially for urban poor groups. In the case of the GBWASP, analysis reveals that many poor groups have paid the capital cost contribution (some as far back as 2005) but are yet to receive water (Ranganathan et al, forthcoming); moreover, even though households living in less than 600 sft have been made exempt from this capital contribution, many of them have been compelled to pay this amount with no information on whether or how they will be reimbursed (ibid).

Besides increasing tariffs, IFIs also urge what they call the rationalization of tariffs. This involves eliminating non-revenue water (i.e., unaccounted for "leakages" including all un-metered water such as free water provided via public standposts) and eliminating cross-subsidies (i.e., higher commercial tariffs cross-subsidizing poor groups usage). For instance, in Bangalore, the Water Board (BWSSB) started charging Rs 3000/ kl (as per their tariff notification 2/2005) for water from public taps to curtail the use of free water to poor groups in a bid to ensure cost recovery. This is contrasted with its charge of Rs 6/kl (for the lowest slab of consumption) for a household connection. Due to this extortionist rate, the city corporation stopped financing this subsidy and public taps are being dismantled or receiving negligible water supply. This has forced poor groups to find alternative, more costly, sources of water.

The rationale behind eliminating subsidies for poor groups seems to be to force them to get household connections as this would expand the user base of consumers. Combined with higher tariffs and user contributions to recover (capital and operating) costs, water supply services then become a lucrative business[51]. IFIs argue that the poor gain by getting household connections as then they too will benefit from the subsidies that the middle classes are currently enjoying. However, with increased private contracting of services there is no guarantee that tariffs will rise at rates consonant with affordability. *Most contractual agreements are weak on monitoring and evaluation of performance, and there is often no inclusion of benchmarks specifying affordability and quality criteria for the urban poor.* Thus while improved cost recovery does not guarantee service improvements, there is no doubt that it enhances opportunities for engaging the private sector in service delivery.

This bias towards financial considerations and commercial viability at the expense of enhanced coverage and quality of services is reflected in the JNNURM as well. In the JNNURM, an increase in the amount of private capital invested in urban infrastructure and the number of private sector operators in urban service delivery is viewed as an indicator of better performance and efficiency (ADB JNNURM TA, 2006). This is without regard for where the capital is going, the nature of projects and outcomes, and equity, access and environmental concerns. In the BSUP component, which is to be largely administered and run by government agencies, there are no clear indicators measuring performance nor are there clear criteria by which BSUP projects must be designed, implemented or benchmarked

[51] This is especially considering that "the recovery from water sales has risen at a faster rate in recent years compared to expenditure on water provision" (Mathur 2005).

such that access and quality of services to poor are enhanced[52]. Except for the JNNURM's Poor Budget, which only specifies a targeted allocation for urban poor groups, there are no concrete poverty alleviation or social sector indicators for measuring performance.

One of the JNNURM's conditions is that property tax assessment /collection should cover 85 percent of city properties. The new property tax assessment method promoted by the WB and reinforced by the JNNURM, the Capital Value System (CVS — unit area value method), has been introduced to bolster the ability of cities to generate revenues. CVS introduces valuation based on market values of the land (as opposed to rental values in the prevailing Annual Rateable Value (ARV) system of property tax) and will serve to increase property taxes especially in areas where land values are high. There is no doubt that raising revenues is a critical need for ULSGs as this could enable them to design and provide services based on local needs without relying on unpredictable and meagre grants from State governments. However, we argue that property tax reform under the JNNURM seems to be oriented towards generating revenues that can be escrowed or used to repay infrastructure loans, in effect benefiting the private sector, rather than strengthening the ability of ULSGs to provide better services to its citizens. No serious attempt has been made to examine the impacts of such increases in property tax on fixed salary earners or poor groups. This is especially serious since high land values resulting in high property taxes are often the outcome of speculation. The WB (2004b p. 18 Vol I) argues that the increase in property tax as a result of CVS "may not impose undue burdens on low-income families" although it does not explain how it has reached this conclusion, merely citing another document, "Urban Property Taxes in Selected States".

The WB (ibid) also recommends removing differential rates of tax levied in the ARV system between residential and non-residential properties and between owner-occupied and rented properties in order to improve collection efficiency. While there is no guarantee that such a move would result in improved collection, there is no doubt that it would eliminate cross-subsidisation (i.e. commercial properties cross-subsidizing residential properties) inherent in current property tax collection systems and disproportionately benefit the private sector, particularly large commercial developers/owners.

While the CVS system was introduced in the Greater Bangalore area in 2008 there was so much opposition from residents that its implementation has been stayed until a more thorough review can be done of its impacts on different socio-economic groups. Clearly some financial reforms like tariff reform and property tax reform have preceded others, like the creation of independent regulators and ombudsmen, although the latter serve the vital functions of regulation, complaint redressal and conflict resolution. These all point to the conclusion that *reforms are being implemented to provide reasonable profits and hedge risks for private investors.*

4.4 Erosion of local democratic powers and processes

IFI projects are typically channeled via SPVs or parastatal agencies bypassing local elected representatives and the practice of debate by the elected councilors. Decision making by parastatal agencies and state level "empowered committees" consisting of senior bureaucrats helps to break the democratic accountability structure as they are not accountable to the electorate. In the JNNURM we see further strengthening of the powers of state level bureaucrats over ULSGs via formation of PMUs and PIUs (www.jnnurm.nic.in). This follows precedents set by IFI projects in establishing PMUs to manage and coordinate

[52] In the ADB TA on JNNURM, no criteria of measurement is given for how they will measure decreased urban poverty except for a generalised statement saying, "significant benefits from infrastructure improvements [will be] realized by urban poor in participant cities".

projects. Overall reporting of the PMU team leader is to the CEO of the SLNA and not to local elected representatives. The PMU team leader also reports periodically to the JNNURM Mission Directorate (i.e., MoUD) on the status of projects and reforms in UIG cities in the state and presents clear recommendations on next steps. The functioning of the PIU is to be closely monitored by the concerned ULSG, State government and MoUD. This reinforces centralisation of powers and the control of state and MoUD over JNNURM projects. When elected ULSGs are not in control of providing and delivering infrastructure and basic services, accountability to local residents is compromised. Importantly, it is poor groups who are most harmed by this as they make claims on city resources through elected representatives and their bargaining power comes, in large part, from their vote (Benjamin 2000).

Non-inclusion of political actors and processes in project planning has several consequences for the success of projects/plans and for the nature of projects being developed. One of the most serious is the likelihood of indebtedness of ULSGs. The commercial and political risks of PPPs in urban infrastructure are high as the projects are dependent on other cash flows of ULSGs besides user fees and tariffs, like property taxes. Donors and policymakers therefore pay great attention to property tax reform, tariff hikes and user fees as a means to generate revenues. These are politically very difficult decisions however that tend to damage the political stock of elected representatives and the ruling party as they are resisted by all user groups. The intrinsically political nature of these decisions is commonly neglected by IFIs, private consultants and lobby groups in designing financial models of large infrastructure projects.

The WB and ADB tend to design financial models for projects that represent security for investors; irrespective of who defaults, they get their money back from State or Central Government guarantees or through credit enhancement mechanisms. A conversation with an Indian consultant on financial management (Interview, April 24 2008) elicited that ADB consultants can end up making irrational projections because they have less incentive to care if the financial model and structuring isn't done properly at the city level, they don't have to live through the repercussions. In the case of the KUIDP, ADB and KUIDFC made a case for ULSG payback based on a projected 251% increase in monthly water and sewerage bill (in real terms) between 1996 and 2005 and a projected 123% rise in property tax collections from 2000 to 2004, projections that were completely unrealistic (Celestine, 2006). When it came time to pay, local councilors and engineers said they could only realize a small increase in property tax collections and tariffs both due to political as well as affordability considerations. These four towns are now in a situation of being unable to pay back, leaving this debt burden to fall on the State Government. This is a clear case of a decision to go ahead with a particular PPP based on parastatal and consultant notions of financial feasibility leading to financial failure due to lack of involvement of elected representatives and 'messy' democratic politics.

Private investors are typically interested in large projects because returns are higher (Kundu 2000). This in part explains IFIs preference for designing and launching large infrastructure projects in ULSGs even when ULSGs cannot absorb these funds. Typically, ULSGs have high levels of dependence on state revenue support; CRISIL calculates that on average 53% of total ULSG revenues are transfers from State Government. This high level of dependence is generally not factored in when designing IFI projects. A recent CRISIL presentation (SR Ramanujam, 2005) reveals a typical grant component to only be 30% of project costs. This does not match extent of ULSG dependency on the State, leaving a gap of 23%. Even if capital investments are provided by the State through the grant component, O&M costs which almost equal annual debt maintenance costs are not able to be met by ULSGs whose existing sources of funding and revenue improvement potential are too small. *They end up defaulting and the state ends up paying. This is a situation that could potentially be avoided if city* *governments played a role in project design and decision making and were not only responsible for paying back project loans*. Further, since cities are not themselves doing investment planning and are often not even implementing projects, they have less incentive to care about outcomes. The client-service provider relationship evaporates and so does the local self government-citizen relationship.

4.5 Redefining accountability in urban governance

Increasingly, the definition of accountability in urban governance is being conflated with what the WB (2004) calls "social accountability" of "front line" service delivery units to clients. *The change in language used is significant: here clients as per their right as consumers and not citizens demand accountability from service delivery units, not the local government whom they have elected*. This dimension of accountability receives the most attention and funding from IFIs despite the WB (2004) recording two other dimensions of accountability: 1) political accountability of politicians to citizens as well as businesses and organized interests; and 2) internal accountability of government agencies to politicians in their role of policy makers and accountability of lower levels of government to higher levels.

Achieving social accountability has come to mean putting into place such reforms as citizen report cards, "one-stop" shops (service centres) providing services like birth certificates, score cards for ULSGs to promote competition and monitor performance, and online grievance redressal. They do not prioritise encouragement of larger and more informed political debate within elected councils and the floor of State Assemblies. Nor are genuine attempts made at public consultations that would entail a shift away from the present trend of consultant-generated city development plans. Further, these accountability mechanisms tend to be biased towards the wealthier that are better educated and have access to the internet (Kamath et al, 2008).

Being a consumer is closely linked with paying (higher) taxes and service tariffs and in turn receiving (better quality) services (WB 2004). Since profits (revenue generation) are the bottom line for the private provider, there is a move to provide enhanced quality of services for consumers/taxpayers and lower (it is not clear how much lower) levels for those who cannot afford to pay. This serves to create service distinctions between those who are perceived as 'deserving taxpayers' and those who are not (i.e. poor groups), particularly with respect to quality of services, accountability and local provider response. An illustration of service distinctions between middle and upper class "consumers" and poor "non-consumers" is revealed by examination of how e-governance reforms, which are touted by the IFIs to streamline public sector administration and build accountability between citizens and government, work in Bangalore.

E-governance (i.e, computerised) mechanisms for complaint management were instituted under the *Nirmala Nagara* Programme in Karnataka in 2003 with funding from the WB and ADB. To date, they have only been partially implemented in many ULSGs. Our field work revealed that many local officials did not understand how the system works or its rationale. While all complaints made to government offices should be entered in the computer and then rectified within a specified period, this has happened mainly for email and telephone complaints. In person complaints made in the field to councilors or field officials are often not recorded in the system. This is despite them typically accounting for a high volume of complaints made, and being the main mode of complaint for poor residents. This means that many service complaints by poor groups are not recorded, not followed up for rectification, and not included when local offices are evaluated for performance in grievance redressal. Computerised complaint management systems are clearly much more suited to middle and upper class needs and not to poor groups. Currently, the way the system is being implemented in several Karnataka towns, does not fit with the ways in which poor groups get access to services or make complaints. This means it does not build on existing relationships between poor residents and local leaders, associations, and elected councilors, which are the main channels through which poor groups obtain services and service upgrading. Despite mostly failing to work for the poor, e-governance reforms have been made a condition of the JNNURM and cities across the country are being required to implement them.

Although considerable attention has been paid to investor protection in urban infrastructure, to date there has been almost no emphasis laid on building IFI or investor accountability. This is despite the fact that many IFI projects have been seriously attacked by local groups for failures in design, implementation and outcomes. This is also in spite of the fact that PPPs are functioning in weak regulatory environments where governments have low capacities to enforce regulations. In such a situation, there is clear need for IFI funded TAs on the types of regulations and regulators necessary to hold private investors and contractors accountable for delivering public services that are benchmarked according to certain prior determined criteria.

4.6 Controlled public participation and its effects

Redefining accountability is closely linked with redefining participation. Facilitating public debate on what infrastructure is needed, how it should be delivered, the benefits and costs of providing infrastructure, and whom they accrue to urgently needs attention. Increasingly, however, WB and ADB prescriptions for participation have become equated with monetary contributions or user fees. While we argue that this undermines the agenda for meaningful and democratic debate in decision-making, IFIs argue that (a) it instills in project beneficiaries a sense of ownership over assets, (b) enables them to take a larger role in the management of the assets leading to improved service delivery, (c) mobilizes scarce finances, allowing the entry of non-state actors into what can be commercially viable service delivery, and (d) forces providers to be more responsive and accountable to contributors (WSP 2007). But these justifications assume that if beneficiaries are treated as consumers, service providers will necessarily respond as efficient businesses with timely and high quality service. In reality, accountability and responsiveness is not so easily built. Several asymmetries of information and power persist, making for spotty performance.

Further, participation is increasingly managed through intermediaries. Typically, these intermediaries are select NGOs whose role is to obtain project "buy-in" from community groups, which often translates into overcoming suspicion of the private contractor and persuading beneficiaries to pay for services. In the GBWASP, people could participate only through an NGO called Janaagraha using a Memorandum of Agreement (MoA) called PLACE, which seemed to be essentially a campaign to persuade beneficiaries to "participate" or pay for capital expenditure. This version of structured participation attempted to de-politicise a highly charged issue like access to water supply by confining people's participation purely to one of financial contribution. In Chennai, the Centre requested the Chennai City Corporation to revise the JNNURM CDP mainly due to large-scale complaints about the lack of public participation in the process of the CDP. The consultant GHK International won the contract for revising the CDP but subsequently subcontracted the citizen consultation component to an NGO, Sustain, prompting the question of how it won the contract if it did not have the capacity to do the job in the first place.

The new discourse on social accountability gives a prominent role to civil society organizations (CSOs) in demanding better services from local providers. This is a discourse, however, in which only selected players tend to participate. These privileged players typically include "local stakeholders like the Bangalore Agenda Task Force (BATF) or Bombay First" (WB 2004b). Both the BATF and Bombay First are loose coalitions of (largely) corporate members established to improve infrastructure and city governance although the BATF was set up by the Karnataka Government and Bombay First was a corporate initiative. That both these entities were not accountable to, nor representative of, the rest of the city, is indication of the kind of local stakeholders who find greatest representation in public consultations and those who get left out. It is noteworthy that to date, no participation mechanisms exist that effectively includes poor, 'unauthorised' or illegal groups even though these comprise 20-60% of most Indian cities. In the JNNURM, beyond city and state TAGs, which are not representative of the city, there is no citizen oversight[53].

While pro-poor policies are meant to outline explicit policy measures in a particular sector(s) to ensure service to and coverage of the poor, there are serious problems with the way in which they are prepared and implemented. The case of the KUWASIP provides an illuminating example in this respect. The process of preparation of the KUWASIP pro-poor policy by select policymakers, IFIs and private consultants is problematic since it does not include the very people whom it is supposed to be benefiting. A half page summary of key features on the website of the KUIDFC is the only glimpse local communities could have had of the GoK's KUWASIP pro-poor policy.

Based on evidence from the field, we argue that the KUWASIP pro-poor policy emphasises willingness to pay, reduction of subsidies, and the necessity for tariff hikes over actual improvements of services for the urban poor. It promotes a monopoly piped water system that services only people who can pay for water supply since all connections will be metered. The aim is to bring poor groups into the mainstream water supply network where they will pay according to usage (a volumetric rate rather than the flat rate they were paying earlier) although they are offered a waiver of the connection charge and a lifeline supply of water at a concessional rate. A decision on how much lifeline water supply would cost poor groups was made by a tariff revision committee of Commissioners from the three Municipal Corporations in which KUWASIP was launched as there was no elected council in office at the time. This rate does not guarantee affordability of poor groups and could be revised at any time. The lack of an elected council also made it difficult for poor groups to channel their complaints, if any, via local corporators.

The KUWASIP pro-poor policy also proposes to supply water free of charge through NGOs/ CBOs to the homeless poor and others through public kiosks/standposts. An official from KUIDFC working on KUWASIP explained that NGOs and CBOs went around the pilot wards to make sure that all residents moved on to the metered network. Because the NGOs and CBOs could not find any resident who needed the provision of free water through public standposts in these wards, these subsidized services for the poor were not even started in KUWASIP. It is not clear what criteria informed the conclusion that no poor resident needed free water from standposts. Additionally, the pilot wards are not representative of the variety and numbers of poor people inhabiting the city. If and when the project is scaled up to the entire city the implementation of the policy will affect how the poorest benefit.

The emphasis on legality at the policy level has served to bifurcate the poor into the legal (more deserving) poor, who are awarded explicit concessions by the state, such as those in the pro-poor policy, and the illegal (undeserving) poor, whose interests are left to be determined at the local level through a series of circuitous negotiations (Sangameshwaran et al, 2008). In theory, Sangameshwaran et al explain, the poor with illegal connections who fail to regularize their connections would not receive any water once KUWASIP was operationalised. In practice, disconnecting poor groups with illegal connections from the

[53] There have been several demands for social audits in the JNNURM but no steps have been taken by government towards making this a reality.

distribution network was not considered politically desirable (ibid). Moreover, the Karnataka Urban Water Supply and Drainage Board (KUWSDB), the parastatal in charge of urban water and sanitation in the city was keen on increasing its user and revenue base. So, just before commissioning the new scheme, it legalised illegal connections by collecting nominal fees of Rs 30. This reveals the gulf that exists between decisions taken to ensure financial feasibility of the project (i.e., everyone needs to have a legal connection or face discontinuation of water supply) and political realities on the ground.

We have chronicled several problems inherent in the controlled version of participation that IFIs promote. However, permitting controlled participation often helps to divert attention away from issues of structural reform, particularly those that question the ability of local governments to respond to these pressures because they lack the powers, functionaries and funds to do so. A recent paper (CASUMM 2006) argues that promoting citizen participation at the local level fails to be useful when local governments do not have the power to make crucial project investment and implementation decisions.

Part II has analyzed the implications for municipalities and urban poor groups of concretizing and grounding a pro-private sector urban reform agenda. While there have been several protests from local groups which have stalled a few projects, this has not succeeded in derailing the juggernaut of urban reforms. The final section of the paper sums up the arguments made thus far and provides some concluding thoughts.

Conclusion

This paper has chronicled the important role played by the WB and the ADB in building ideological agreement on the need to restructure the financing and governance of urban infrastructure in ways that privilege the private sector. This agreement has precipitated a public policy shift characterised by two main features. Public funds are used to leverage private sector participation in urban infrastructure. Public funds are also allocated on condition of acceptance of a package of urban reforms, typically designed with IFI support. The results of this policy shift have been revealed to be greater promotion of private financing and design/operation of infrastructure, prioritising commercial viability of projects and achievement of reforms. The consequent greater interest in developing large infrastructure projects rather than basic services because they're more commercially viable has hurt both poor and middle class groups in cities across the country.

In Part I we trace the strategies, reforms and projects IFIs have used to engineer this shift. Prime among these are financial and governance reforms supporting the entry and structuring of PPP projects in urban infrastructure, promoting supportive policies and model legislation, pioneering financial models like pooled finance and escrow to mitigate private sector risk, and institutional frameworks that concentrate decision making in a few hands while pushing a controlled and limited version of public participation. The latter section of Part I goes on to examine how these strategies and schemes are accepted and actively promoted by different actors in national, state and local level government such that they find their way into public policies and programmes. Implementation of these policies and programmes has been enabled by creating buy-in from those who are benefiting from the impacts of this restructuring. We pay particular attention to unpacking the characteristics and impacts of the flagship urban infrastructure project, the JNNURM, launched by GoI in Dec 2005. Acknowledging that the process of building agreement on urban sector policy is a lengthy one and there is a need to go back 12-17 years to trace the genesis of present full-fledged programmes like the JNNURM, this section includes a brief analysis of past IFI urban sector strategies and schemes (since 1990) and how they lead into current and future ones.

Part II of the paper concentrates on the impacts of this reshaping of urban infrastructure finance and governance for local governments and for vulnerable groups. We place particular emphasis on examining those impacts of the restructuring that are not so visible or comprehensible, such as the erosion of local democratic processes, financial models that focus on commercial viability, targeting large infrastructure projects at the cost of basic services, and concentrating decision making powers in the hands of a few individuals and organizations.

The paper reveals that the market model provides a blueprint for building infrastructure that meets the interests of IFIs, and select groups inside and outside of government. Convinced of the value of this approach, these groups unceasingly propagate it without sufficient scrutiny of how this approach unfolds on the ground and the impacts on local groups. Failure to consider alternatives to this policy framework is particularly serious in view of the fact that performance on the ground (in terms of number of projects completed on time, and with inclusive outcomes) has been far from satisfactory. Several examples in this paper of JNNURM and IFI projects have made this evident. Despite this, urban reforms and projects continue apace with no pause for reflection or revisiting of programmatic assumptions and progress on outcomes. We see as imperative the need for greater and more rigorous examination of the outcomes of PPP projects, through studies by independent researchers/institutes and social audits by community groups. Such a grounded understanding could lead to sustained pressure for greater debate and reflection on the current trajectory and implications of urban reforms.

All in all, current urban sector policy marks a clear withdrawal of the state from public provision of services accompanied by a moral retreat from the responsibility to ensure that all groups in society have access to basic services. The focus is squarely on promoting PSP in urban infrastructure without putting in place the necessary legal and regulatory framework to ensure adequate performance and outcomes. In a context where the private sector is increasingly promoted as the authority involved in service provision and design, it is not clear who will take (moral and other) responsibility when problems related to service provision or access arise. In such a situation, we indicate the critical need for the state to commit to establishing and enforcing service delivery norms and performance standards, especially to ensure affordable and quality services for the poor. This could help reorient the present flawed policy toward infrastructure by reducing the emphasis on commercial viability and user fee revenues and instead focusing on providing cost-effective, higher quality services to residents. We also argue for much more emphasis on provision of basic services to all. This would see coverage of plan targets and country MDG targets for all sections of the population, especially for poor groups. The 18% reservation of city budgetary allocations for the welfare of the most marginalised and poor groups (SC/ST groups) could be a good starting point. Calling attention to this policy as a regional and local priority could result in more appropriate design and more effective implementation.

The current model of reforms dilutes the role for local government. A profusion of parallel bureaucratic structures that bypass local elected governments have been established to develop and manage IFI and other infrastructure projects. This has reduced the ability of local governments to function autonomously and provide services that are more responsive, appropriate to local needs, and accountable. We call for reversing this trend, instead initiating a process of strengthening of city governments to give them more say in governance and local decision-making. This is an agenda that requires concerted action and agreement from all levels of government and civil society, no less from IFIs who play an important role in shaping urban sector policy and implementation. Union and state governments could take a lead in meeting current (largely unfulfilled) devolution targets and going beyond them to achieve 40% devolution to local governments. IFIs could make interaction with and working through local government part of their India urban sector policy, rather than bypassing ULSGs and operating via SPVs. In turn, local governments could focus on utilising these funds for fulfilling basic service needs on a priority basis, along with higher-end infrastructure targets. Citizen groups play a vital role here in communicating their basic service needs to their elected representatives and demanding accountability and responsiveness from them.

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