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## OUTSOURCED URBAN GOVERNANCE AS A STATE RESCALING STRATEGY IN HYDERABAD, INDIA

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### ABSTRACT

In the years since liberalization, state power has been rescaled in India's polity and this is both a cause and consequence of greater inter-state competition for footloose capital. In this context, some state governments are designing special regulatory tools to attract and concentrate investments by easing 'doing business' for private investors and leveraging land resources—primarily in their largest cities. Equally important, they ensure public investments are channelled to these select spaces and that resources are available for maintaining high standards of infrastructure. In Hyderabad, the 'Industrial Area Local Authority' (IALA) is a powerful tool that allows privatised management by state and non-state actors of recently constructed productive spaces, mainly concentrating globalised service sector activities, including by collecting local tax revenues and various development charges to be spent exclusively within the industrial area. In this way, governance and fiscal functions are outsourced to non-elected bodies, outside the purview of democratic institutions. By essentially replacing municipal authorities, the IALA framework produces new forms of governance at the same time that it generates fragmentation of the institutional fabric of urban spaces. In effect, it creates a tool for by-passing urban politics, or in the case of periurban spaces does not allow an urban politics to emerge. Building on recent research, this paper examines the implications of IALAs in Hyderabad on urban governance and local state sovereignty.

### INTRODUCTION: OUTSOURCING URBAN GOVERNANCE

The period since the 1970s has seen the burgeoning of new institutional forms aimed at tackling the myriad challenges of urban governance and development in an era of neoliberal governmentality. Derived from the hybridization of public and private actors and interests, new models of urban governance, whether public-private partnerships or place-based instruments like business improvement districts, have drawn their *raison d'être* from perceived and documented government failures in providing public goods, infrastructure and services.

Ranked as the number one destination for public-private partnership (PPP) investment flows since 2006 by World Bank data (Planning Commission 2013:18), India has been at the forefront of institutional experimentation on the public-private interface at least since 1991. The emerging institutional arrangements range all the way from special purpose vehicles (SPVs) to guide megaproject development to the long-standing prototypes of the company town, repurposed to meet contemporary requirements in integrated industrial townships. The SPV model, for example, was deployed not only in the previous Congress-led government's National Investment and Manufacturing Zones but also in the current BJP-led

government's flagship Smart Cities scheme, where the plan to appoint Chief Executive Officers for selected Smart Cities as a parallel structure of authority alongside the elected municipal framework has met with disquiet (Idiculla 2015).

The outsourcing of key powers and functions that traditionally fell under the rubric of government has newfound momentum under the current dispensation, with its slogan of "minimum government, maximum governance" (Ruparelia 2015; Modi 2014). But the evolution of these privatized forms of governance can be traced back to the contradictory dynamics that came into focus in the 1990s. The 74<sup>th</sup> Constitutional Amendment granted recognition and democratic legitimacy to local governments in urban areas. This advance in decentralized governance unfolded, however, against the backdrop of IMF-supported programme of liberalization, which created new entrepreneurial imperatives for subnational states and fostered the rise of speculative forms of governance (Goldman 2011; Mahadevia 2011). While on the one hand, these forces reflected and necessitated the reconfiguration of the state's powers and functions across national, sub-national and local scales, they also gave a unique cast to Harvey's (1989) conceptualization of entrepreneurialism as the motive force of urban governance in the neoliberal epoch, as sub-national state (provincial) governments *rather than city governments* came to take on the mantle of entrepreneurialism, leaving the task of managing the after-effects of growth to local bodies (Kennedy 2014).

If the ideal of subnational entrepreneurialism found propulsive impetus in the South Indian state of Andhra Pradesh, its realization depended in large degree on the regime of the Industrial Area Local Authority (IALA), applied in industrial parks and estates across the erstwhile state of Andhra Pradesh as well as present-day Telangana.<sup>1</sup> A specialized governance instrument that devolves the powers and functions of rural and urban local bodies to a state government agency, the IALA represents a fairly elaborate template for outsourced urban governance in contemporary India. In the establishment of a de facto private government in select industrial areas, the IALA shows kinship with other forms of corporate urbanism, such as the industrial township (Sood 2015). It also bears close resemblance to global models for outsourcing public goods provision such as the Economic Development Zones and the Business Improvement Districts (BIDs), which starting from Canada have proliferated around North America, Europe, Asia and Africa (Warner 2011). In South Africa, for instance, these are called City Improvement Districts (CID) (Dubresson 2008; Peyroux 2008).

While scholars have been particularly attentive to the BID phenomenon over the last few decades, the Indian case has remained overlooked, partly because it departs on some dimensions from the canonical international paradigm. The ability to levy *higher* property tax rates to finance infrastructural improvements is central to the BID's definition. For example, Hoyt and Gopal-Agge (2007:946) define the BID as "privately directed and publicly sanctioned organizations that supplement public services within geographically defined boundaries by generating multiyear revenue through a compulsory assessment on local property owners and/or businesses." In South Africa, "CID were funded by additional taxes on top of existing municipal levies and were intended, not to replace the municipality but to manage additional services under contractual concession arrangements, and to facilitate

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<sup>1</sup> Telangana was officially created in February 2014 when the state of Andhra Pradesh was bifurcated. Hyderabad serves as the joint capital until Andhra Pradesh's new capital, Amaravati, is built.

local development” (Dubresson: 2008: 3). In contrast, the IALA like other Indian models of corporate urbanism, seeks to *replace* rather than supplement the municipality; it outsources both tax powers and spending powers to the “special purpose enclave” itself, thereby transforming it into a ‘local authority’.

This paper seeks to position the restructuring of state power around the IALA within a broader understanding of the state spatial rescaling processes that have characterized contemporary Hyderabad, and that are indicative of India-wide trends. Processes of state rescaling are known to produce institutional reconfigurations; here, we examine recent reterritorialisation efforts aimed at scaling up the municipality to a metropolitan region. The aim is to analyse the repercussions of these processes of institutional and territorial restructuring on governance and on the larger socio-spatial dimensions of the urban fabric. Two hitherto overlooked modes of institutional fragmentation need particular attention. The first aspect of concern is the *fiscal fragmentation* introduced into municipal finances, as a result of the territorial and political reorganization of tax collection powers around the IALA regime. The second, related dimension interrogates the politics of bypass embodied in this instrument. How do regimes of exception produced through ‘zoning technologies’ (Ong 2006) such as the IALA reconfigure accountability and local sovereignty?

This paper draws on interviews with key informants and close examination of organizational documents both offline and online. We conducted interviews with over 35 key informants over the period August 2015 to January 2017. These included retired senior bureaucrats, planners, officials from various departments within the Telangana government, as well as members and representatives of industry federations and IALA service societies. We also met officials at various levels of the municipal corporation (circle offices and the head office), and the metropolitan planning authority.

Following the enactment of the Right to Information Act 2005, government and semi-governmental agencies are required to appoint Public Information Officers and respond to information requests by the public. Given this push to transparency, Telangana state government agencies, as well as the municipality provide considerable data and information online, though it is on occasion out-dated, incomplete or incorrect. In the latter cases, we attempted to follow up with interviews with relevant informants.<sup>2</sup> In addition we also scanned closely relevant news and media reports as well as press releases. Finally, field visits of selected industrial areas in Greater Hyderabad allowed us to observe the material conditions of IALAs and collect their geographical coordinates for mapping their location ( see Figure 1).

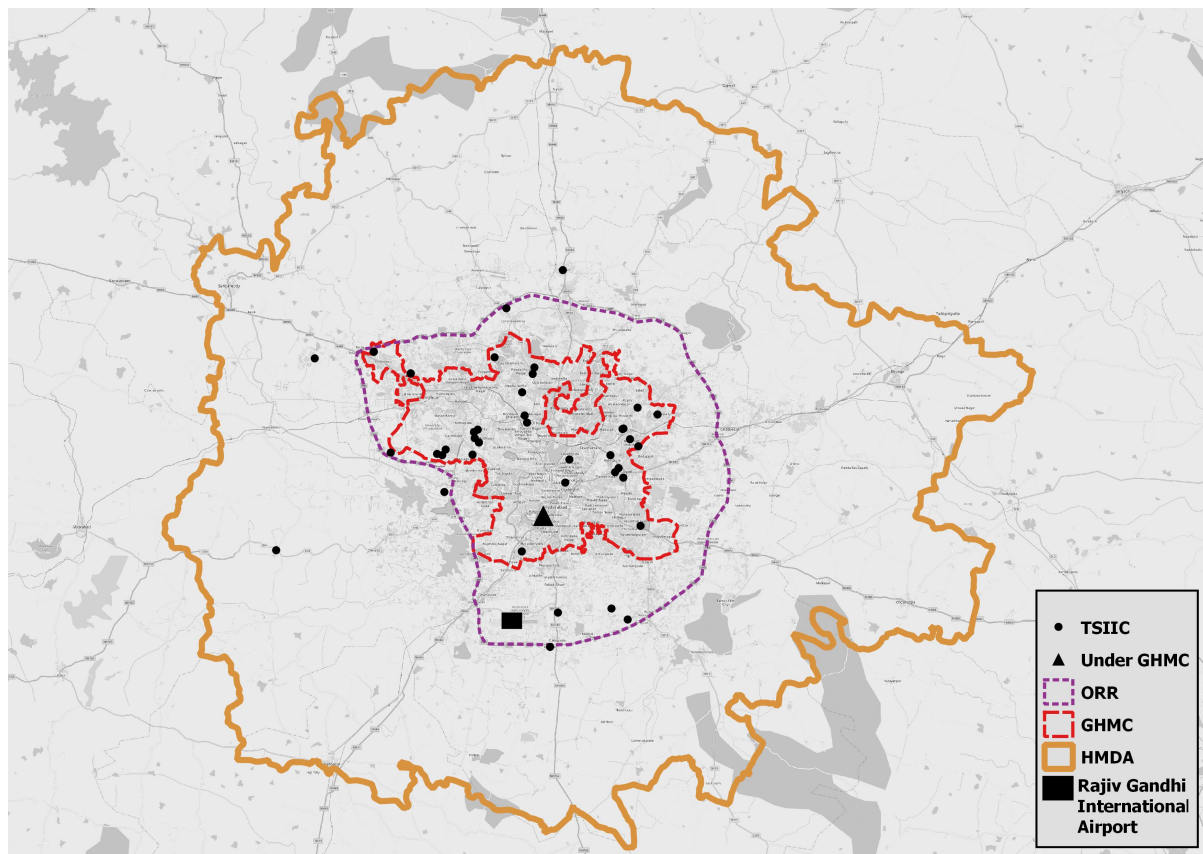
The paper is organized as follows: The next section delineates the analytical approach undergirding this paper and positions state rescaling theorization in relation to the Indian and Hyderabad contexts. The following section elaborates on the opposed logics of integration and institutional fragmentation embodied in recent rounds of territorial reorganisation in Hyderabad. Next, the IALA instrument is described in detail before critically examining the fiscal and political fragmentation it has generated. The paper then situates the case of Hyderabad within a wider trend of bypass, and underscores the conflicts and contradictions in processes of state rescaling in India. The last section traces the IALA’s

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2 Most officials agreed to be interviewed on the condition of anonymity. For this reason, we have recorded only the place and date of the interview.



role in the city's growth engine and outlines the implications of the politics of bypass and exception for democratic governance.



**Fig. 1.** Location of IALAs in Hyderabad.

Source: TSIIC commissioners data; Revised GHMC Circle map 2016; HMDA map; map created by Shreya Basu, with Ashima Sood. Note: Dots representing IALAs are not drawn to scale. HMDA boundary is approximate. Legend abbreviations: TSIIC: Telangana State Industrial Infrastructure Corporation; ORR: Outer Ring Road; GHMC: Greater Hyderabad Municipal Corporation; HMDA: Hyderabad Metropolitan Development Area.

## THE RESCALING PERSPECTIVE

The development of megaprojects in the form of new industrial estates and corridors has contributed to restructuring urban economies and shaping urban space in metropolitan Hyderabad, most strikingly in the erstwhile peripheral areas of the city (Kennedy 2007; Ramachandraiah and Prasad 2008; Das 2015a; 2015b). This pattern, observed in other large Indian cities since the mid-1990s (Shaw and Satish 2007), has contributed to spatial and institutional fragmentation (Shatkin 2011; Ren and Weinstein 2013; Follmann 2015; Bon 2015; Anand and Sami 2016; Kennedy and Sood 2016).

To interpret the links between overarching political economic processes and urban spaces, and to capture how the understanding of these links influences public policy, the literature on state restructuring or rescaling appears particularly relevant. This body of theory, largely inspired by critical urban geography and French regulation theory, focuses on how states adapt to changes in capitalism by reconfiguring their relation to space and territory (Brenner et al 2003; Brenner 2004). Developed primarily in reference to North Atlantic capitalism,<sup>3</sup> it has sought to explain how nation-states shifted from a Keynesian-inspired model, based on “uniform and centrally managed policies, aimed at the redistribution of assets, income and employment opportunities and infrastructure in order to create socially cohesive national space economies” (Klink 2013: 1169), to a supply-side model targeting investments and promotional policies in favour of *specific types of spaces*. Thus, in contrast to ‘spatial Keynesianism’ subsequent policies were characterized by “the proliferation of customized and downscaled institutional arrangements aimed at the creation of competitive urban economies” (ibid). Urban spaces in particular have been targeted as strategic production sites, concentrating human and physical resources most capable of creating value and well connected through quality telecommunications and transport infrastructure. Increasingly, cities are leveraged as growth engines in regional and national economies, a trend observed in both advanced and emerging economies.

This body of theory builds on conceptions of scale that are not restricted to spatial aspects. Here, a scale has political and social texture and emerges or consolidates as a result of social processes that involve an appropriation of space. In this perspective, the emphasis shifts to the ‘scalar dimensions of political and social practices’ rather than focusing on phenomena occurring at various ready-made scales (e.g., local, national, global, etc.) (Moisio 2011). Importantly, *rescaling* or shifting scales is always a contested process and new or recalibrated scales are understood as an outcome of struggles for influence and power (Swyngedouw 2004). In India, endogenous political development in conjunction with market reforms have given rise to state spatial rescaling; new state spaces are produced via a contested process by socio-political forces emanating from various geographical scales (Kennedy 2014).

Across the globe, as cities have increasingly become strategic sites for growth, issues about urban governance have come to the fore. This has prompted debates about multiscale governance arrangements, territorial reorganisation, the devolution of fiscal powers to local bodies, and the merits of powerful executives and directly elected mayors (see Sivaramakrishnan 2011). In India, despite the reforms instituted by the 74<sup>th</sup> amendment, even the largest cities have not seen a significant increase in powers (Ghosh et al. 2009;).

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<sup>3</sup> For a discussion of rescaling in non-Western contexts, see Park 2013 and Gimm 2013.

State governments remain the key actors in urban space; moreover, many have asserted their intention to act as a substitute for the local government (Kennedy and Zerah 2008). In other words, in the reordering of jurisdictions that has occurred in the last couple of decades, subnational states have seen their jurisdictions enlarged (Kennedy 2014). If this has not been the case with local (municipal) governments, it is largely because state governments have resisted devolving powers and resources. At the same time, they have actively participated in rescaling state space by multiplying policy interventions in their largest cities, including in ways that have been described as ‘predatory’ (Mahadevia 2011) and speculative (Goldman 2011).

Fundamentally, rescaling processes imply a change in the spatial frame of reference underpinning state action. This can be expressed through a formal reconfiguration of jurisdictions, rescaling in a ‘narrow’ sense, which refers to “the changing organization of state territoriality in the modern inter-state system; the evolving role of borders, boundaries, and frontiers; and the changing intra-national geographies of state territorial organization and internal administrative differentiation” (Brenner et al. 2003: 6). The creation of Greater Hyderabad in 2007 through the merging of territories is one such example, and will be further discussed below.

In contrast, the ‘integral’ sense of state space covers a wider range of state spatial strategies that attempt to shape the geographies of socio-economic activities (Brenner et al. 2003). It refers to the myriad ways in which social and economic activities and relations are re/de-regulated and re-organized in order to achieve state objectives, which may or may not involve territorial reorganization. These strategies have scope to restructure local economies, by shaping which sectors are promoted, the types of employment created and the sites where firms can locate. In many Indian cities, including Hyderabad, state strategies aim to provide ‘world class’ infrastructure to investors and often take the form of enclaves (Shatkin 2011; Follmann 2015; Sood 2015). Often, these areas are governed by a set of special “streamlined” rules, ranging from building regulations to tax codes. Hence these strategies create not only spatial but also institutional fragmentation. The IALA instrument provides a compelling illustration of this state strategy, further discussed below.

## TERRITORIAL REORGANISATION AND STATE RESCALING IN HYDERABAD

In the mid-2000s, the Andhra Pradesh government unilaterally decided to expand the boundaries of the municipality of Hyderabad and create the Greater Hyderabad Municipal Corporation (hereafter GHMC, Greater Hyderabad or municipal government). Although the elected councillors opposed the expansion, GHMC was created by decree through a Government Order in 2007.<sup>4</sup> It was formed by merging 12 surrounding municipalities and eight villages (*gram panchayats*), increasing the area of the municipality by more than four times, from 172 km<sup>2</sup> to 725 km<sup>2</sup>, and almost doubling the population. This decision to territorially reorganize the municipality, i.e., rescaling in the narrow sense, can be interpreted as part of a larger restructuring strategy on the part of the state government (Kennedy 2014). It came after about a decade of policies that aggressively sought to develop specific places in Hyderabad’s urban peripheries, most remarkably in Rangareddy district, located on the western edge of the core city (Kennedy 2007; Ramachandraiah and Prasad 2008; Das 2015b). There, the state government directly promoted or provided support for

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4 The Constitution (Seventh Schedule, List II, item 5) places local government in the “State List” and empowers state governments to constitute municipal bodies and determine their powers.

private development of large-scale industrial projects, starting with HITEC City, one of its flagship projects, a first step in the creation of a cluster of export-oriented service sector activities that has been pursued, for instance with the Nanakramguda IT Park and Financial District. Here, international investors have set up and equipped globally connected platforms, like the Waverock Special Economic Zone, developed by a US-based company (see Photo 1).



**Photo 1.** Waverock SEZ, Nanakramguda IT Park, Hyderabad. (Photo A. Sood, 2015)

The two stated rationales for instituting Greater Hyderabad were to strengthen the city's civic administration in order to provide public services, and to scale-up economic development in the metropolitan region.<sup>5</sup> Regarding the latter, expanding the metropolitan area was seen as a means to better engage with globalisation processes; export-oriented information technologies and bio-technologies are explicitly mentioned in the Government Order. This resonates entirely with the state government's efforts to use Hyderabad as a 'platform' for connecting the region to the global economy, articulated in the late 1990s in the *Vision 2020* roadmap (Government of Andhra Pradesh 1999).

In the wake of the merger of surrounding local bodies, political and administrative sub-units were redrawn and staffing patterns reconfigured. The new administrative set-up was conceived as a three tier structure: a head office at the apex level, five zonal offices, each headed by a Commissioner, and finally 'circles', each headed by a Deputy Commissioner. As

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5 See Government Order No. 704, Government of Andhra Pradesh, 2005.

of October 2016 there were 30 circles (increased from 18, then 24). This was the number recommended by an expert committee formed to offer guidance on the rationalisation of the staffing pattern. In its 2011 report, the committee recommended hiring 2607 new administrative posts (in addition to the existing 2399) to enhance governance and accountability while improving service delivery.<sup>6</sup> Although the recommendations received approval both from the municipal council and the state government, the new posts were not filled, the most probable reason being that the Telangana agitation was intensifying in late 2013 and those in favour of bifurcation wanted all new hiring to take place under a new administration, more favourable to Telangana natives.<sup>7</sup> Then Greater Hyderabad commissioner Somesh Kumar in on record saying “It is not proper to take major decisions at this time. We will wait for the bifurcation process to be completed”.<sup>8</sup> However, in January 2016, nearly two years after bifurcation, recruitments had still not taken place. Staffing at the municipality remains not only grossly insufficient compared to the population of the city, but also highly skewed, with very few senior and middle level officers in relation to low-level employees. This pattern makes for a hierarchical model of urban management where senior level officers concentrate the bulk of power and responsibility.

In terms of planning, the Urban Development Authority was ‘upgraded’ in 2008 and transformed into the Metropolitan Development Authority. With jurisdiction over 7257 square kilometres, it is the 3rd largest urban planning authority in the country after the National Capital Region and Bengaluru Metropolitan Region. However, it was evident from interviews with planners that the capacity of the organization had not been proportionately empowered to keep pace with the new mandate, perhaps the most egregious illustration being that the statutory land use Master Plan for the metropolitan area was not prepared in-house but instead outsourced to an agency in Ahmedabad.<sup>9</sup> In conformity with the 74th CAA, a metropolitan planning committee has been set up in Hyderabad, but it is comprised primarily of officials, with the Chief Minister at its head. According to one of India’s foremost urban experts, “The Hyderabad [Metropolitan Development Authority] is a super body with a significant mandate but singularly lacks political participation and, therefore, legitimacy and accountability”(Sivaramakrishnan 2009).

It can be noted that this tendency to bypass representational bodies, for instance by delaying elections, is a recurring pattern in Andhra Pradesh/Telangana politics. There were several long gaps in which municipal elections were not held in Hyderabad (1973-1986; 1991-2002) and more recently 2-year gaps: after the creation of Greater Hyderabad (2007-2009) and after the formation of Telangana (2014 and 2016). It is worth noting that significant municipal reforms (property tax, service delivery systems) that were implemented in the 1990s, notably under Chandrababu Naidu’s TDP government, took place in the absence of an elected municipal council (Kennedy 2008). These deficits of democracy form part of the overall political backdrop of this region, against which current rescaling strategies must be analysed.

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6 See “Report on GHMC staff pattern”, *News18*, November 10, 2011, URL: <http://www.news18.com/news/india/report-on-ghmc-staff-pattern-417446.html>, last accessed July 4 2018.

7 See “GHMC sanctions 2,607 new posts”, *The Hindu*, Hyderabad edition, August 15, 2013. See also “TRS plans Delhi civic model of administration for Hyderabad”, *Deccan Chronicle*, May 7, 2014.

8 See for instance “5 yrs on, short staffed GHMC awaits recruitments”, *Times of India*, Hyderabad edition, January 8, 2016.

9 Interview with planner, Metropolitan Development Authority, Hyderabad, January 11, 2016.

Significantly, the upgraded metropolitan planning authority encompassed, in addition to the existing planning area, three other entities: Hyderabad Airport Development Authority, Cyberabad Development Authority and Buddha Poornima Project Authority (Hussain Sagar Lake development). These three special authorities had been created in the late 1990s under Naidu's government as part of an effort to expedite particular large-scale projects, identified for their strategic importance. They are emblematic of a certain type of state spatial rescaling, i.e., ad hoc policy instruments that define specific regulatory frameworks for the realization of specific projects, effectively removing them from the purview of normal government departments (Kennedy 2014). Jurisdiction over these areas was delegated to a government agency, which took charge of all the traditional functions of the local government: general maintenance of the area, new infrastructure development *and* tax collection. As this suggests, this governance structure was modelled on the IALA, presented in the following section.

## MAPPING THE CONTOURS OF THE IALA

The IALA was established in 1994, shortly before Chandrababu Naidu's election as Chief Minister. It is an instrument that devolves the statutory powers and functions of local bodies to a semi-autonomous agency of the state government, viz., the industrial infrastructure corporation, for selected industrial areas that are designated as IALAs. The rationale for the IALA was the local bodies' putative neglect of industrial areas; the notification of an IALA ensures stable access to resources. Concretely, it devolves powers to assess, levy and collect taxes and various fees, sanction building permits, remove encroachments and to enjoy spending powers mainly with regard to management and maintenance of infrastructure and civic services. The demarcation of particular areas as IALAs and the notification of specific powers and functions to be devolved are activated through executive fiat in the form of Government Orders. Notwithstanding, it is interesting to note that provisions for devolving powers and functions were embedded in local government legislation passed in 1994 for rural areas (Panchayati Raj Act) and similar 'exceptions' were also introduced into laws governing urban areas (Municipalities Act, Hyderabad Municipal Corporation Act). The table in the Appendix provides a listing of devolved powers and functions.

At the local scale, each IALA has an internal self-governance structure in the form of a "service society", which regroups the owners of the firms located in the IALA (Sood 2016). The society elects a managing committee, whose members meet each month to take decisions on day-to-day issues regarding the basic services provided by the society, as well as infrastructure maintenance. They work closely with the Commissioner assigned to each IALA, the authority in charge of assessment and collection of property taxes, approval of building rules and of providing civic services in the IALA area. This decentralised, semi-autonomous governing structure resonates with that found in BIDs/CIDs in other countries.

The exact number of IALAs falling within Greater Hyderabad's boundaries remains a matter of contestation. While municipal officials cited a number of 19, industry associations listed 16. Our own mapping concluded there are 17 IALAs located wholly within city boundaries (see Figure 1).<sup>10</sup> Whereas these discrepancies suggest problems of transparency, field surveys indicated numerous instances of ambiguity at various levels within the local and

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10 There are non-contiguous segments of the Nanakramguda IALA that lie outside the municipal boundary.

regional administration, including uncertainty about the exact spatial boundaries covered by a given IALA, whether residential areas were included or not, whether a given IALA had indeed forwarded its share of taxes to the municipality, etc.

Until the bifurcation of the state in 2014, the IALAs in Greater Hyderabad were controlled by the Andhra Pradesh Industrial Infrastructure Corporation (APIIC). Currently, it is the Telangana State Industrial Infrastructure Corporation (TSIIC) is the territorial successor, in function and institutional form, to the APIIC for the districts comprising Telangana state. Through its control over IALAs, the TSIIC's territorial jurisdiction can be said to 'overlap' with that of Greater Hyderabad. The deployment of the IALA instrument within Greater Hyderabad creates tension as it goes against efforts to integrate the municipal space and forge an effective political scale within the expanded boundaries. It contributes to institutional fragmentation instead of building cohesion. The IALAs are also contested because they deprive the municipality of much needed fiscal revenue.

## MUNICIPAL VS STATE GOVERNMENT: CONTESTING RESCALED TAX POWERS

Property tax, calculated on the basis of estimated rental values, is the single largest source of revenue in Hyderabad, like in most Indian cities. "Town Planning charges" are the second most important budgetary item. These have been very buoyant in Hyderabad, bringing in revenue that amounts to approximately 50% of that of property tax. In 2014-15, receipts from Town Planning were INR 5.3 billion<sup>11</sup>, compared to property tax revenues of INR 10.9 billion. Among Town Planning receipts the two most important heads are building permits and impact fees, levied on certain roads, followed by betterment charges and Building development charges. As this suggests, a booming real estate sector has the potential to bring significant revenue to local government. However, Greater Hyderabad is not currently fully harvesting the fruits of property development and building activities because of the IALAs. As mentioned, the provisions governing IALAs allow for significant tax revenue and building fees to be collected and kept internally. Under the rules, only part of the property tax collected is turned over to the municipality (35% initially, although this has been increased for some IALAs) and the rest is maintained within the IALA to be used on maintenance and other improvements, at the discretion of the managing committee.<sup>12</sup>

In conducting research for this paper, we learned that many of the IALAs do not in fact share tax revenues and town planning fees with the municipality. In January 2016, municipal officials stated that in 2014-15 they had collected INR 70 million in shared property tax from IALAs, against 600 million that was owed to them. Only the Shamshabad (international airport) and Cyberabad areas, both recently developed, remitted a share of the taxes they had collected.<sup>13</sup> By some estimates, INR 1.5 billion is the amount of property tax currently withheld via the IALA mechanism, a figure we were unable to cross-check. As a proportion of the municipality's total revenues, this represents a very significant amount. To illustrate the tax-generating scope of some of the newly integrated areas, Serilingampally (Circle 11),

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11 As of June 2018, one Euro is worth approximately 80 rupees (INR), one US dollar is worth INR 68.

12 Set at 35% initially, this was increased subsequently to 50% for some of the newer IALAs. In August 2017, a circular noted that the amount would be set uniformly at 35%.

13 Interview with official at the Finance Department, GHMC Head Office, Hyderabad January 5, 2016.



where the Cyberabad and Nanakramguda IALAs are located, collected more than INR 1 billion in 2014-15 (out of 10.9 billion total for Greater Hyderabad).<sup>14</sup>

The municipal government is naturally displeased about this state of affairs. In theory at least, the revenue generated within the industrial areas could be used to improve service levels, one of the major challenges facing the current administration, thereby helping it to integrate the recently annexed areas into the more established city core. The municipal government has protested against the non-payment of taxes and tax arrears from IALAs and, more importantly, has publicly disputed the *principle* of maintaining IALAs within the municipal area on grounds that it fragments local state space. In 2010 the municipal council passed resolutions contesting the delegation of powers to the IALAs and appealing for the dismantlement of the IALAs and their re-integration into the municipality's jurisdiction. These challenge the statutory basis of the IALAs' powers, arguing that it was the Municipalities Act of 1994 that delegated these powers and not the law that created Greater Hyderabad (the GHMC Act) (Sood 2016). The municipal government has formally requested that the state government allow it to take over the industrial areas currently administered under the IALA formula. In a press report, the municipal government is quoted as saying the IALAs represent "a parallel power centre by giving building permissions and collecting property tax",<sup>15</sup> a viewpoint also expressed in interviews with officials in the municipal authority.<sup>16</sup> Recovering jurisdiction over the IALAs would be a game-changer for the municipality, given the proportion of tax revenues they generate in relation to the municipality's total budget.

As this makes clear, the local government (GHMC) contests the state government's claim to administer the industrial areas within municipal territory. It strives to assert its sovereignty over its official territory, basically challenging the state government to honour its promise of making the metropolitan city a genuine political scale. So far the municipal government has not succeeded in convincing the concerned state government department (Municipal Administration) to act in its favour. Doing so would involve countering the weight of the Industries & Commerce Department, and its powerful Industrial Infrastructure Corporation (TSIIC), which comes under the direct supervision of the Chief Secretary to the government. Within the state government there are no doubt conflicting positions and tensions.

## BYPASS AND THE POLITICS OF EXCEPTION

The Cyberabad Development Area and the HITEC City project laid the groundwork for the application of specialized governance regimes on the fast-growing western expanse of the city. . In particular, the carving out of IALA territory from the then Serilingampally municipality provided an early preview of the contestations that came to mark the relationship between the IALA and successive municipal governments. In 2007 as many as 120 properties were taken from Serilingampally to constitute the present-day Nanakramguda IALA. To quote a press report, that territorial reorganization put the municipality in the "strange situation" of losing tax revenue yet still being held responsible

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14 Only four circles (Khairatabad 1, Khairatabad 2, Kukatpally, and Secunderabad) generated more property taxes than Serilingampally. This information was collected at Circle 11 office, January 5, 2016.

15 "Controversy-hit APIIC may lose its IALA arm", *Times of India*, Oct 3, 2010. The report ends by stating "With transfer of powers from IALAs, the GHMC hopes it would get an additional Rs 1 billion revenue from building fee and property tax collections."

16 Interview with official, GHMC Head Office, Hyderabad January 5, 2016.



to provide services to those areas.<sup>17</sup> Reflecting on this fiscal and institutional fragmentation, one official was quoted as saying: "It is as if islands have come into existence here".

This skewed fiscal allocation in favour of economic actors reflects the deeper logics animating "entrepreneurialism" in Greater Hyderabad. Many of the civil servants and planners we interviewed believed that the municipal framework remains inadequate to the task of building a global city. One retired bureaucrat, speaking informally, argued that the making of Cyberabad was in some respects too important to be left to the municipal administration (Sood 2016). He noted that Hyderabad had been bankrupt up until the municipal finance reforms of the late 1990s and early 2000s spearheaded by the state government. In his view, it was necessary to integrate planning, financing and governance in one agency and the municipality lacked this kind of capacity. But more importantly, according to this interviewee, the municipality's problem was its inability to think "big", as evidenced by the fact it was still building flyovers with the large revenue surpluses it had recently accrued. Another planner argued that project approvals with the municipal authority remained mired in long-winded procedures and red-tape, if not expectations of kickbacks (Sood 2016).

Fundamental to these perspectives was a view of the city as a corporate entity; urban management was in this way an application of corporate management principles. The industrial infrastructure corporation (APIIC/TSIIC), as an ostensibly 'public sector' agency<sup>18</sup>, perfectly fit the bill for the entrepreneurial organ of the state. Most critically, this agency could respond to needs of enterprises in the IT parks and other industrial parks and estates in a way that the municipal corporation's democratic mechanisms could not. Resonating with policy documents on the IALA concept, entrepreneurs spoke of "self-governance" as a key rationale and impetus behind the devolution of *panchayat* and municipal powers. The municipalities and *panchayats* were attentive to the demands of residents; in contrast, the IALA addressed itself to the requirements of growing enterprises.

The IALA's role as special purpose enclaves suggests that it has been deployed by state-level technocrats as an instrument for planning in opposition to the trajectory towards decentralization contained in the 74<sup>th</sup> Constitutional Amendment, in some ways in keeping with logics of bypass (Sood 2016; Kennedy 2014; Idiculla 2016) and exceptionality (Follmann 2015). As Kennedy (2014) has argued for the strongly guarded ramparts of HITEC City, these enclaves serve as a vehicle for bypass, seeking to keep "competitive regions" protected from the realities of democratic contestation embodied in municipal government. At the same time, their administration through privatised forms of governance amounts to removing them from the public oversight, despite the fact that such enclaves benefit from public resources. These include investments in basic infrastructure and services but more importantly access to land, acquired using state government machinery or made available from existing land reserves under the stewardship of the state.

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17 'Municipality caught in a piquant situation', *The Hindu*, February 27, 2007. Available at: <https://www.thehindu.com/todays-paper/tp-national/tp-andhrapradesh/Municipality-caught-in-a-piquant-situation/article14726629.ece>, last accessed on June 29, 2018.

18 The APIIC (later TSIIC) is not a pure public agency; it is a parastatal entity allowed to earn profits. Such development corporations have become hugely powerful in recent decades as land brokers. See, for instance, Goldman (2011).

A second form of bypass is equally salient: the IALAs have played a critical role as sites of regulatory easing, with respect to matters such as building approvals. For example, in cases of buildings above 18 metres, the IALA Commissioner remains closely involved in expediting building approval applications. In fact, the procedure documents pledge that applications will be processed and sanction awarded or denied within 14 days. One interviewee who was closely associated with the industrial infrastructure corporation in the western reaches of the city appealed to the logic of bypass, arguing that the municipality's approval procedure for building plans was both long-winded and corrupt and often served to block projects (Sood 2016).<sup>19</sup>

Nonetheless, the evidence presented in this paper also indicates another reading. As the oft-repeated narrative of the IALAs as sites of self governance by smaller entrepreneurs reveals, the outsourcing of governance in these enclaves also creates new articulations of collectivity for the enterprises that "reside" in the industrial parks. The transfer of powers and functions among the actors that constitute the IALA – the service societies, the state government and the industrial infrastructure corporation itself – becomes subject to contestations. Together they form a parallel centre of power. Thus, far from the politics-free zones envisaged by state-level technocrats, the IALAs remain mired in the contestations that mark the "political economy of resource sharing" in metropolitan Hyderabad (Sood 2016).

#### GREATER HYDERABAD VS IALAS: DEMOCRACY VERSUS SELF-GOVERNANCE?

As indicated above, the municipality contests the devolution of its statutory powers over industrial areas within its territorial jurisdiction. However, the state government has not seriously considered rolling back its use of the IALA instrument. Industry groups strongly support the state government's position. IALA office-bearers in an industrial area located in the eastern edge of the city made a provocative point about the nature of their battle against the reintegration of the Hyderabad IALAs into the municipality. They noted that the municipality's reintegration campaign was targeted less at older industrial parks, than at the newer IT Parks in Cyberabad Zone, where both property tax collections and the scope for deepening revenues was higher (Sood 2016). Yet, it was the SMEs and "middle class" local entrepreneurs/industrialists who led the battle against the Greater Hyderabad's claims. The schism, they argued, arose because the enterprises located in the older industrial parks had more to lose if control of infrastructure and upkeep passed out of the hands of the service societies. In fact, one interviewee suggested that in these IALAs, entrepreneurs were willing to go to any lengths, including resort to violence if necessary, to preserve the status quo.

What exactly is the most important stake for enterprises in the IALAs? In contrast to the SMEs that populate legacy industrial parks, companies locating in Cyberabad zone IALAs are far more autonomous in terms of basic services delivery (Sood 2016). Not only does the Cyberabad Zone house the campuses and regional headquarters of prominent IT and financial services multinationals and corporations ranging from HSBC to Microsoft, Infosys and Wipro, it is also home to an unusually large number of Special Economic Zones and business parks. Not surprisingly, average plot sizes here are far larger than those in older industrial areas and in those catering to SMEs. Nonetheless, an equally important issue may be property tax collections and how they affect SMEs. Enterprise owners fear tax hikes under a municipal regime.

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<sup>19</sup> Interview, Hyderabad, October 9, 2015.

IALA service society members interviewed as part of this study all complained about proposed hikes on property taxes via new assessments, and occasionally rate increases. More broadly, the industry federations have disputed estimates of potential property tax collections in the IALAs. To understand this disjunction, it is useful to note once again that not only has the industrial infrastructure corporation been the nodal agency for collection of taxes in the IALAs but that property tax assessments often depend on interpretation of the tax code. For example, in one case brought to our notice, an industrial area located in a former village incorporated into Greater Hyderabad was classified in 2007-08 rental assessment gazette as a “slum”, though property values in the area had risen manifold. While in this case, the lack of revision of property tax rates may partially be to blame, municipal revenue officials also pointed to examples where industrial park properties were incorrectly classified by IALA managers. These ambiguities arise from the fragmentation of authority and oversight in the management of these areas, and from the lack of an effective mechanism for mediating contested claims.

One IALA service society member provided another perspective on the stakes, noting the precarious market conditions faced by SMEs in sectors such as engineering, where the closing down of major public sector units had killed local demand. Given the uncertain economic fortunes of these enterprises, the industrial infrastructure corporation tended to be more understanding and flexible in property tax demands than could be expected of the municipality (Sood 2016). In this way, the IALA appears to act as a ‘buffer’ between the municipal authority and enterprises located in the municipal area, raising important questions about local state sovereignty. This illustrates the importance of informal practices afforded by the IALA instrument, which leave scope for traditional forms of authority to prevail over formal rules and regulations. This perfectly demonstrates Roy’s theory of informality existing “at the very heart of the state and [as] an integral part of the territorial practices of state power” (Roy 2009: 85).<sup>20</sup> Enterprises expect indulgence from the industrial infrastructure corporation, and interviews suggest they do indeed receive it e.g., via favourable assessments and deferment of tax obligation.

The battle for jurisdiction over industrial areas appears to be on-going although if the Telangana Industrial Policy is to be believed, the state government, or at least the Department of Industries has made its stance clear (Sood 2016).<sup>21</sup> It promises:

As a part of providing a hassle-free environment for the industrial units, the concept of Industrial Area Local Authority (IALA) will be strengthened. All new Industrial Parks that will be set up by the TSIC will be covered under the IALA system. All existing TSIC Industrial Parks which do not have an IALA will adopt the IALA system (Government of Telangana 2014: 16).

The “hassle-free” epithet exposes the rationale driving the extension of the IALA instrument, i.e., ease conditions for business, and equates municipal governance with “hassle”.

Yet, this seemingly decisive statement was not the end of the matter. April 2015 saw a further round of claims and counter-recriminations between the municipality and “IALA

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20 We thank an anonymous reviewer for pointing out the relevance of Roy’s theoretical formulation for our argument here.

21 A senior state government official situated this provision against the multi-year contest between the GHMC and the TSIC over the claim to the IALA areas. Interview, Telangana Secretariat, Hyderabad, 17 August 2015.

representatives". It was reported that the then Greater Hyderabad Commissioner had submitted a plan in March 2015 to the State's Chief Secretary to merge 16 IALAs into the municipal area, and that the municipal government had made forcible advance claims on IALA property tax collections for the year 2015-16.<sup>22</sup> The IALA Federation organized another press meet and appointed a panel to liaise and advocate on the matter to the government.<sup>23</sup> At the time of this study, interviewed industry representative reiterated their argument for local "self governance" but matters appear to be in abeyance.

## CONCLUSION

This paper examined emerging forms of governance in Hyderabad that rely on privatised management of select industrial spaces. Through executive orders and legislative amendments the subnational state government of Andhra Pradesh, and subsequently Telangana, effectively removed industrial enclaves from the purview of the municipality of Hyderabad. A large number of the latter's statutory powers and functions were effectively outsourced to an ad hoc entity, the "Industrial Area Local Authority", under the control of the powerful infrastructure development corporation (APIIC/TSIIC).

We argued that the IALA instrument represents a compelling example of a rescaling strategy on the part of the state government, allowing it to appropriate select productive spaces in the metropolitan city. This reconfiguration of state power is an expression of a wider strategy playing out over the last few decades aimed at shaping the geographies of industrial development in this region. Although state rescaling strategies can take broadly similar forms across space, their specific rationales and outcomes necessarily depend on local contexts and contingencies. The transformations underway in Indian cities have been shaped by historically inscribed forms of power relationships. Municipal governments have not experienced a significant enhancement of their prerogatives within the country's overall territorial organisation despite formal decentralization reforms and despite intense processes of spatial restructuring occurring in urban spaces over the last few decades. This is primarily because subnational state governments, in charge of urban legislation within their territories, have been disinclined to implement reforms and are especially reluctant to leave economic development in the hands of local administrations. The creation of Greater Hyderabad in 2007 was motivated by the recognition that metropolitan-scale governance was necessary to accompany economic restructuring and related urban expansion. Yet, in practice the state government has undermined the municipality's fiscal and administrative capacity. The systematic application of the IALA instrument removed the most vibrant economic areas from the municipality's jurisdiction.

Like other neoliberal-inspired instruments designed to administer "zones of exception", IALAs facilitate the circumvention of rules and regulations; they are tools to allow exceptional forms of governance (and presumably to supply exceptional levels of services). So though the decentralised, semi-autonomous governing structure of the IALA broadly resembles that of the BID/CID found in other countries, its rationale and functioning are distinct. It does not seek to *supplement* local government but to *replace* it. Our analysis has shown that it is above all a regional state strategy the primary goal of which is to ease doing

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22 Meanwhile, GHMC revenue officials claimed that the IALAs were yet to transfer any funds for the year 2015-16 and that transfers in previous years had fallen far short of the demand. Interview, GHMC Head Office, Hyderabad, January 6, 2016.

23 See also <https://www.youtube.com/watch?v=0BCW8RFbqRA>

business, including through administrative and territorial “flexibility”, what Roy (2009) has called ‘calculated’ informality. IALAs offer flexibility to enterprises with respect to their obligation to pay local taxes, both the amounts and the timeframe. Although the official policy framework clearly intended that a percentage of tax revenues from IALAs were to be shared with the local body, the state government has not enforced this responsibility.

As a state spatial rescaling strategy that effectively outsources the governance of industrial areas, IALAs represent a reconfiguration of local politics. By effectively removing territory from the purview of the local state, they contribute to institutional fragmentation at the local scale, creating a patchwork of fiscal and regulatory regimes governed by different authorities. Yet, even as the IALA disconnects from and bypasses the local, it allows integration into political and economic circuits at other scales. As an instrument of a state government parastatal agency, the IALA draws its legitimacy from and serves the purposes of the state government; IALA’s highest officers have a direct hotline to the chief minister. Likewise, the IALA instrument has been systematically deployed in the newer industrial areas, where it is showcased as an effective platform for linking firms to global markets. These firms, many of which are global concerns or domestic firms producing for global markets, no doubt find the IALA convenient as a ‘single-window’ for fiscal and administrative matters.

The local state (municipality) contests the devolution of its statutory powers over economic spaces within its territorial jurisdiction and has demanded their reintegration. More than a symbolic struggle over territory and sovereignty, the municipality is deprived of a large proportion of tax revenue. This case illustrates in a compelling fashion the tensions and contradictions between the “narrow” forms of state rescaling implicated in the creation of Greater Hyderabad through the massive expansion of its boundaries and the more “integral” reorganisation of state space represented by the IALAs. Although by no means settled, the shifting terrain of this contest suggests the ways in which local sovereignty and accountability are undercut by state rescaling strategies that reconfigure territorial organisation through enclaves and exceptional forms of governance.

Hyderabadis take pride in the new, globally-connected industrial areas of their city, which are widely perceived as proof that Hyderabad is successfully meeting the challenge of creating wealth and employment. Cutting them out from the municipal fabric and removing them from the collective oversight of elected officials is to symbolically separate the shining new Hyderabad from the old business as usual city. Municipal authorities are mounting resistance to the state government’s rescaling strategy but it remains to be seen whether they will succeed in reclaiming the territory and statutory functions that have been outsourced to the “Industrial Area Local Authorities”.

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## APPENDIX A: POWERS AND FUNCTIONS DEVOLVED TO THE IALA

Act	Relevant Sections	Nature of Powers and Functions
<b>AP Panchayati Raj Act, Section 147</b>	60 to 69, 71 and 72	Provisions relating to Taxation and Finance
	93 to 103, 120 to 123	Provisions relating to Public Safety, Convenience and Health; (including encroachments and obstructions)
	126 to 129, 131, 132,134; To 142 and 145	General and Miscellaneous (Gram Panchayats) Provisions; (including naming of streets; licensing of “professions”; inspection, appeal and others)
	254 to 257 and 267	Miscellaneous Provisions (recovery of arrears, inspections, etc)
<b>AP Municipalities Act, Section 389-B</b>	85 to 95; 114-119; 120; 124; Rules 1-38 of Schedule-II of AP Municipalities Act, 1965	Provisions relating to Property Tax, Tax on advertisements, duty on transfer of property
	134 to 145	Provisions relating to water supply
	146 to 155	Provisions relating to lighting, public and private drainage
	164 to 170	Provisions relating to scavenging
	171 to 183	Provisions relating to public streets
	184 to 193	Provisions relating to private streets and encroachments on streets
	197, 198	Prohibition against making holes and causing obstruction in streets; License for work on buildings likely to cause obstruction (as public safety)
	357 to 368	Provisions relating to powers of entry and inspection, enforcing license proceedings, payment of compensation etc
	197 to 203; 204 to 206; 207 to 211; 212 to 213; 214 to 226; 229 to 231; 232 to 238; 264 to 278; 282 to 289	Municipal Taxation; Property taxes; Special provisions concerning the water and conservancy taxes
	290 to 295; 296 to 318; 319 to 320; 324 to 328; 332 to 336	Municipal Drains; Disposal of sewage from individual sources; Water-closets, privies, urinals etc; Inspection
<b>Hyderabad Municipal Corporation Act, Section 679-F</b>	373 to 396; 397 to 423; 424 to 427; 428 to 435; 436 to 443; 444 to 450; 451 to 455; 456 to 460; 461 to 463	Public streets; provisions regarding private streets; Projections and obstructions; naming of streets; street lighting; dangerous structures, unlawful and other works; inspection
	480 to 509	Scavenging and cleaning, Inspection and sanitary regulation of premises
	516 to 524	Regulation of Factories, trades, etc

Source: Adapted from APIIC website. Available online: <http://www.apiic.in/industrial-area-local-authority/>  
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