Financing Infrastructure in India's Slums: RAY's Prospects and the Political Economy of Urban Reforms

A Position Paper by Malini Ranganathan

I. Introduction

Rajiv Awas Yojana (RAY), a federal program dedicated to making India "slum-free", was announced by Prime Minister Manmohan Singh's government in 2009 and formally took effect two years later. At the heart of RAY sits an integrated approach to slum redevelopment that bundles together the provision of housing, land titling, and infrastructure. Backed by significant federal monies (since it subsumes all existing schemes for the urban poor) and a language of inclusive urban growth, yet also strongly emphasizing of private property rights and an efficient land market, the program represents a fascinating and hybrid historical moment. It is a "New Deal" for urban poverty alleviation in India (Mathur, 2009) that also echoes the World Bank's "sites and services" approach to self-help slum upgrading in the 1970s and 1980s. At the same time, RAY is staunchly driven by Hernando De Soto's liberal vision of the late 1980s: to give the poor a chance at a dignified, healthy, and productive life, to unleash their potential as economic actors, they must be assigned legal property titles. Moreover, in order to achieve ambitious targets for upgrading slums on a "holistic", "whole city" basis (GoI, 2009), RAY adopts a vocabulary of partnerships (both private sector and community), stakeholding, and resource mobilization now popular in contemporary market-driven reforms. In short, by cobbling together historical and current approaches to urban poverty alleviation, RAY is both déjà-vu and something new.

In this position piece, I reflect on the prospects of RAY's approach to slum upgrading given the broader political economy of urban reforms in India. In particular, I focus on the challenges and opportunities for <u>financing physical infrastructure in slums</u> under RAY. Currently, RAY guidelines envision "bringing all existing slums, notified or non-notified *within the formal system and enabling them to avail of the same level of basic amenities as the rest of the town*" (GoI, 2009: 2). Crucially, the guidelines mandate that while the center will bear 50% of the cost of basic civic and social infrastructure and housing, "the provision of infrastructure and amenities *will be treated as a State Good*" and as such, "*no costs will be passed on to slum dwellers*" [ibid: 9]. Not only is this view uncharacteristically socialized given the broader move in India to commercialize infrastructure since the late 1990s, it also raises interesting questions about how the remaining share is expected to be financed.

Overall, I take the position that although there is much to commend in RAY's approach—particularly its carefully thought out interlinking of infrastructure with housing and tenure and its allied call for establishing a safety net for the poor (Mathur, 2009)—there is also cause for concern about its compatibility with the general direction of India's urban reforms. That RAY expects that "no costs will be passed on to slum dwellers" stands in stark contrast to recent national and state policies favoring privatization, full cost recovery in the water sector, bond financing for urban local bodies (ULBs), credit rating for utilities, and beneficiary capital contributions for building infrastructure, not to mention RAY's own favoring of some of these options (see for instance: Mohan, 1996; GoK, 2003; USAID, 2003; GoK, 2005; The Hindu, 2007; The Hindu, 2012). If it is expected that slum dwellers will be brought "within the formal system" (leaving aside for a moment the inherent problem of conceiving of India's cities through a formal/informal dichotomy), it can also reasonably be expected that slum dwellers will be subject to the same cost recovery rationales as the rest of the city. The extent to which RAY will be successful depends in large part on the extent to which it can truly differentiate between "slums" and "non-slums" and the protections thereby afforded to slum dwellers against a prevailing wave of infrastructure commercialization across the country. This is especially true in states that are receiving on-going loans from international development agencies for instituting reforms.

I start by briefly reviewing key dimensions relating to infrastructure financing laid out in RAY documents published by the Ministry for Housing and Urban Poverty Alleviation. I next locate RAY in the wider political economy of urban reforms in India and comment on its prospects given prevailing trends. In doing so, I make special reference to the case of Karnataka. I conclude by discussing tensions that need to be resolved in order to move forward on RAY's hope for a slum-free India.

II. Key Dimensions of Infrastructure Financing under RAY

As introduced above, RAY envisions moving towards a slum-free India through a three-pronged strategy of upgrading housing, assigning property titles, and providing access to infrastructure. Different RAY documents use slightly differing terminology to define infrastructure, but it is safe to assume that, in general, two types of infrastructure are covered under RAY: (i) social infrastructure and (ii) physical infrastructure (also referred to as civic or city infrastructure), the focus of this paper. Under social infrastructure, RAY guidelines cite examples such as schools, childcare centers, health centers, and informal sector markets (which include, presumably, street vending). In the guidelines for preparing a slum-free city plan of action (SFCPoA), other examples of social infrastructure include night shelters, community halls and play areas/parks.

Under physical infrastructure, RAY guidelines list water supply, sewerage, drainage, solid waste management, roads, and street lighting as a comprehensive set of amenities required in all slums. It is unclear, however, whether the provision of electricity falls within this list since there is inconsistency across RAY documents on this front. While one set of guidelines state that power generation is an "inadmissible component" (along with telecom) (GoI, 2011b: 10), another document includes electricity under its list of physical infrastructure that must be covered (GoI, 2011a). Given that electricity is one of the first services that virtually all slums in India gain informal access to through political influence, it is unclear how RAY will handle the regularization of electricity connections.

RAY adopts an approach that favors in-situ redevelopment of slums rather than relocation, reflecting the program's sensitivity to the potential for loss of income or livelihood in the event of resettlement. In addition, the program provides the flexibility for individual states to decide on how central funds—amounting to 50% of the total cost of any given project—will be shared between infrastructure and housing and mandates that states contribute 20% to the cost of infrastructure. In other words, up to 70% of the cost of building new infrastructure or redeveloping it in-situ will be borne by government entities for any given project. In India's northeastern states, up to 90% of the cost of infrastructure and housing will be borne by the central government, reflecting acknowledgement of the systematic impoverishment and underdevelopment of this region since the country's independence.

Unlike in the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) launched in 2005, the flow of funds from the center to cities is not directly tied to mandatory and optional reforms. However, certain reforms are explicitly and implicitly "emphasized", "encouraged, or "envisaged". First, all RAY documents explicitly emphasize <u>private sector participation</u> for slum redevelopment to raise resources. The guidelines for creating SFPoAs put forth in no uncertain terms: "private sector participation [PPP] can be envisaged in redevelopment of slums where reasonable returns are expected to the investor" (GoI, 2011a: 20). In the event that private sector investment is secured, states do not have to contribute their 20% share (GoI, 2011c: 5). Clearly, RAY takes private sector participation tremendously seriously and will fully incentivize it where possible.

More implicitly, RAY documents draw on ambiguous phrases common in Government of India jargon to convey the need for raising resources through alternative channels and commercializing infrastructure where private sector participation is not forthcoming. Favorite among these is the term "<u>resource mobilization</u>" (GoI, 2009: 7; GoI, 2011b: 20). As I learned in my study of the history of urban reforms in the state of Karnataka, the provenance of "resource mobilization" and its urgency in ULBs can be traced to the late 1990s when states began implementing fiscal rectitude plans to address fiscal crises. "Resource mobilization" is used to suggest a wide range of activities from property tax collection, to user charges, to betterment and regularization charges, to tapping capital markets. While the main RAY guidelines do not spell out any specific strategies for resource mobilization, other documents suggest that ULBs should set up revolving funds, use land-based instruments, explore pooled financing, and borrow through municipal bonds, among other options. This menu of indicative options is provided for ULBs to contemplate such that "maximum benefit is derived from the investments proposed to be made" (GoI, 2011a: 36).

Finally, we come to the important issue of <u>beneficiary contributions</u> or user charges for slum upgrading. For housing, RAY adopts the JNNURM policy that users should contribute a minimum of 12% of the costs (10% for weaker sections). By suggesting that "multiple choices and models for housing will be encouraged, that permit beneficiary-led and incremental housing" (GoI, 2009: 4), RAY invokes British architect John Turner's notions of incremental, self-help housing for the poor—an approach strongly supported by then World Bank president Robert McNamara and later institutionalized in the "sites and services" schemes of the 1970s and 1980s. The stipulations are quite different, however, in the case of infrastructure where "no cost will be passed on to slum dwellers" (ibid: 9). The assumption here is that no part of the initial upfront cost of building infrastructure will be passed on, but operation and maintenance (O&M) costs and thus on-going fees for using services will be levied (e.g. increasing block tariffs for water). Currently, the details of how recurring user fees will be levied and matched to the paying capacity of slum dwellers are not specified.

To summarize, RAY's approach to infrastructure embodies certain contrasts: it envisages a great deal of government funding, but also strongly emphasizes private sector investment; it provides significant autonomy to individual states to decide on how to meet funding gaps, yet the channels envisaged are undeniably market-based; and it places much faith in market-based resource mobilization, yet it refrains from passing the upfront costs of infrastructure to beneficiaries. These facets will be discussed against the backdrop of the political economy of reforms next.

III. RAY and the Political Economy of Urban Reforms in India

At the outset, it should be stated that perhaps the most challenging aspect of RAY and the broader political economy is how it expects to bring slums "within the formal system" when in fact no such thing exists in any Indian city, either in terms of tenure or infrastructure. It is widely acknowledged that as a result of colonial and post-colonial planning legacies and a complex assemblage of political, technical, and financial constraints, infrastructure networks do not operate uniformly across the urban landscape, but are experienced in discontinuous space and time. In Bangalore, for instance, to supplement "formal" utility water provided every other day for a few hours, most households—even those with so-called legal tenure—must source water from private borewells, water tankers, and even bottled water (Ranganathan et al., 2009). Given the intermingling of formal and informal infrastructure everywhere, and the historical political economy of access, RAY will have to deal first and foremost with what exactly it means to bring slums on par with the rest of the city. For the sake of brevity, in this section I focus on RAY's prospects for financing infrastructure given the prevailing political economy of urban reforms. Three aspects of this political economy I cover are private sector participation, commercialization, and decentralization.

Since India institutionalized liberalization reforms in the early 1990s, private sector participation in infrastructure has undoubtedly been on the rise. However, investment has tended to be concentrated in the telecom, energy, and national highways sectors, with little investment flowing to water and sanitation—much like the trend witnessed more globally.[1] Private sector investment, still constitutes a "miniscule share" of overall infrastructure building according to a report by L Lakshmanan (2008: 1) of the Reserve Bank of India. In the urban water and sanitation sector—arguably the most pressing requirement in slums—very few privatization projects have transpired due to public and political resistance, fraught contract negotiations, and high risks attached to investment. Where private participation has occurred, it has mostly taken the form of low-risk management contracts in which private companies are not required to invest significantly (Bhaduri and Khejriwal, 2005). The World Bank's pilot privatization project for 24/7 water supply in the city of Hubli-Dharwad in Karnataka is a case in point. Even here, where private investment was kept to a bare minimum, residents witnessed higher connection charges and a doubling in their monthly capital charges following private sector involvement. While the poor have been protected from these increases, it is unclear how the pro-poor policy will endure when the project is scaled up (Sangameswaran et al., 2008).[2]

The point is that given the necessity of levying user charges to entice an already reluctant private sector, how will RAY ensure that no capital costs are passed on to slum dwellers? And, if

[1] See the data provided in the World Bank's Public-Private Infrastructure Advising Facility database: http://www.ppiaf.org/ppiaf/page/knowledge-center/private-participation-infrastructure-database, accessed on 9 April 2012.
[2] See lso article titled "PPPs in Water: Are They Here to Stay?" by the Center for Science and Environment, available at http://cseindia.org/node/2857, accessed on 10 April 2012.

slum dwellers are expected to bear recurring costs, how will they be protected from seeing unaffordable increases in their bills over time following privatization? These are questions that are not answered nor even anticipated in RAY documents currently. The risk is that the mission of inclusivity so upheld by RAY might get drowned out if private sector participation is to be expanded.

Second, infrastructure commercialization is central to the contemporary reforms agenda. Its "pragmatic" need was articulated most forcefully by the report of the Expert Group on the Commercialization of Infrastructure headed up by Rakesh Mohan (1996). An important referent for subsequent policy reforms, much of this report is dedicated to why and how India should mobilize additional resources for building infrastructure by developing a municipal bond market. A key player in creating a municipal bond market since then has been the United States Agency for International Aid's (USAID) Financial Institutions Reform and Expansion through Debt component or "FIRE-D" program. One project that emerged out of FIRE-D in 2003 was the Greater Bangalore Water and Sanitation Project (GBWASP), a project to extend piped water and sanitation to the peripheral zones of the city by raising municipal bonds through pooled finance and levying mandatory "beneficiary capital contributions". As my research has shown, these upfront cash contributions were levied in order to secure better credit ratings for the bonds and ensure the "bankability" of the project. Many poorer households paid significant sums (although the charge on the poor was subsequently waived), often well in excess of a month's income (Ranganathan et al., 2009; Ranganathan, 2011).

The key point here is that if ULBs are expected to cover their share of financing slum upgrading through the capital market as suggested by RAY, then it is difficult to imagine how ULBs will be able to secure credit-worthy bonds without levying charges on slum dwellers. In a related vein, bond financing has historically made cities beholden to the disciplinary monitoring of credit rating agencies, as has been the case in the US. When credit ratings are in jeopardy, social safety nets are often the first area to be slashed. How will RAY protect against this outcome and the disciplinary measures that accompany market-based financing for infrastructure?

Finally, RAY will have to contend with the messy, uneven, and largely incomplete political-economic project of urban decentralization. Under Schedule 12 of the 74th constitutional amendment for urban decentralization, the responsibility for providing urban infrastructure and improving slums must be devolved to ULBs. Although JNNURM mandated the implementation of the 74th amendment, seven years later, many states have not progressed far. In Karnataka, for instance, a combination of the reluctance of state governments to cede the power of parastatal organizations and the fact that new market-based financing to ULBs is routed through parastatal intermediaries has entailed the deepening centralization of governmental power in a supposed era of decentralization (Chamaraj and Rao, 2006; Baindur and Kamath, 2009). Whether the launching of RAY will mark the dawn of more meaningful efforts at urban decentralization remains to be seen.

IV. Moving Forward

RAY marks a significant step forward in the history of urban poverty alleviation. It attempts to redress the mistakes of previous programs by bundling together infrastructure, tenure security, and housing; it is strongly committed to equitable and inclusive urban growth; and in rhetoric at least it affords key social protections for the poor.

Nevertheless, RAY's desire to bring slum dwellers into the orbit of existing formal systems *and* not burden them with costs will have to contend with the broader political economy and direction of reforms in India. The following key tensions need to be resolved in order for RAY to move forward with its goals for a slum-free India:

- How will RAY mainstream slum dwellers' infrastructure services into the "formal" system (assuming that one can be defined) while also treating slum dwellers as special customers that do not need to face upfront infrastructure charges?

- How will RAY incentivize private sector participation in infrastructure while also assuring that slum dwellers will not face the cost recovery mandates that the private sector will inevitably demand to secure returns on its investments?

- How will RAY source additional finances from the capital market for building infrastructure while also protecting slum dwellers from the credit enhancement measures that banks and rating agencies will require?

- How will RAY promote the goals of urban decentralization while also requiring that ULBs enter into relationships with lenders, financial intermediaries, and rating agencies?

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