I. Introduction and Context

Country Context

India’s rapid economic growth is being accompanied by an unprecedented urban and spatial transformation. While the current level of urbanization in the country is around 31 percent (377 million persons), it is projected to increase to 40 percent or more over the next 20 years. This will result in an increase of the urban population by about 250 million persons - expectedly the largest urban transformation of the 21st century. For the first time in its modern history, India has experienced a greater absolute increase in its urban versus rural population. At the same time, the number of towns in the country has increased from around five thousand in 2001 to around eight thousand in 2011 and there are 53 cities across the country each with a population of over 1 million people. Furthermore, India's slum population increased from 75.2 million in 2001 to 93 million in 2011 and is expected to reach 104 million by the end of the 12th plan period in 2017. This implies that over a quarter of the India’s current urban population lives in slums.

For various reasons, state governments, which have the constitutional mandate for urban development, have not been able to invest adequately in urban infrastructure and strengthening urban institutions. The resulting massive investment and institutional systems backlog coupled with the rapidly escalating urban transformation will continue to pose severe challenges. There will be a
pressing need to accommodate an additional 10 million urban dwellers per year—with many, if not most, having to seek shelter in severely under-serviced slums.

Urban Local Bodies (ULBs) across India are characterized as having inadequate urban management and governance systems with among others, three key underlying weaknesses: (i) inadequate land market and urban development related policy and regulation mechanisms; (ii) weak urban institutional management frameworks; and (iii) constrained financing frameworks. In recent years, policy-makers in India have become increasingly aware of the importance of addressing these issues and the approach of government – at both central and state levels – has begun to change. As a result, the centrally funded Jawaharlal Nehru National Urban Renewal Mission (JNNURM) and Rajiv Awas Yojana (RAY) programs are assigning increasing amounts of funding for infrastructure investment in cities coupled with attempts at institutional strengthening including legal and policy reform. A number of such initiatives are also taking place at the state level.

Sectoral and Institutional Context

JNNURM was launched in December 2005 as a flagship program aimed at creating economically productive, efficient, equitable, responsive, and inclusive cities. This program was designed to extend over the 2005-2012 period and organized via four schemes: (i) Urban Infrastructure and Governance (UIG); (ii) Basic Services to the Urban Poor (BSUP) for 65 cities and towns of national importance; (iii) Urban Infrastructure Development Scheme for Small and Medium Towns (UIDSSMT); and (iv) Integrated Housing and Slum Development Programme (IHSDP) for other cities and towns. While UIG and UIDSSMT are managed by the Ministry of Urban Development (MoUD) and focus on the development of city-wide infrastructure, the BSUP and IHSDP are managed by the Ministry of Housing and Urban Poverty Alleviation (MoHUPA) and focus on housing and provision of basic services to the urban poor. JNNURM is considered to have been more successful in its infrastructure investments than in its urban reform agenda, and is currently being restructured for continuation under the 12th Plan.

The RAY program was approved in June 2011 to complement JNNURM and with the specific mandate of tackling the issue of slums. Its main objectives are to: (i) bring existing slums within the formal system and enable them to access the same level of basic amenities as the rest of the town; (ii) redress the failures of the formal system that lie behind the creation of slums; and (iii) tackle the shortages of urban land and housing that keep shelter out of reach of the urban poor and force them to resort to extra-legal solutions as a way to retain their sources of livelihood and employment. RAY was launched with the vision of attaining slum free cities in India.

RAY is planned to be implemented in two phases. Phases I will operate till March 2013 and involves urban planning, legislative planning, and funding pilots in cities that have successfully completed “slum free city plans.” A process of community consultation is built into the first phase. Phase II will focus on implementation. RAY will assign priority to in-situ upgrading (extension of basic services in existing settlements) and in-situ redevelopment (involving the demolition of existing dwelling units and construction of new, subsidized, housing units on site) of slums wherever feasible. Notwithstanding the above mentioned GoI programs, the sector continues to face challenges.

Urban planning, land use regulations, distorted land markets and slums: The current system of land use planning and regulation across urban India is widely regarded as rigid and ineffective. Effective, flexible and accommodating urban planning, land management and land use regulations are
essential. Zoning and FSI regulations are suppressing development in new suburban activity centers and impeding the redevelopment of old city centers. As a result, formal property development is not taking place fast enough to accommodate India’s modernization and economic transformation. Prevailing constraints on the supply of low-income finished housing include cumbersome land assembly procedures, confusing rules on re-development of land, ill-defined zoning laws, misallocation of land that is reserved for housing, faulty and out-dated building bye laws, and flaws in land registration systems. In addition, there is a multiplicity of agencies that operate in the urban, land and housing sectors with overlapping mandates and competing agendas.

Research indicates that administrative procedures for processing applications for land development are unnecessarily complex, difficult to follow and impose costs and delays which constrain efficient development and access to affordable land and housing. As a result, some 25-30 percent of the existing urban housing stock – and almost all of the low-income housing stock is both informal in nature and located in settlements with little or no tenure security and very poor access to basic services. Whilst the above listed issues have undoubtedly inhibited attempts to put land to efficient use, it does not follow that a complete relaxation of such regulatory instruments would improve access to land and housing for lower income groups or improve the efficiency of land markets.

State housing agencies continue to build housing for economically weaker section (EWS) households with heavy subsidies. However, international experience shows that even the most efficient new housing programs are prohibitively expensive on a per household basis to implement at scale, and cannot keep up with growing demand, let alone replace the existing housing stock in informal settlements. Thus, substantial investment in city-wide upgrading of existing slums is needed first and foremost. Experience with programs such as BSUP, which fund predominantly new finished resettlement housing units for the poor, demonstrate that many units remain unfinished, unoccupied, and have long-term maintenance challenges. Those in desirable locations see substantial leakages as to the original intended beneficiaries. Early indication from the “slum-free city plans” is that many maintain a strong focus on the provision of finished and resettlement housing.

The proposed ISIP therefore proposes to: (a) incentivize in-situ upgrading of slums and thereby encourage private investment in the incremental improvement of the existing housing stock; and (b) provide technical assistance to address the policy and regulatory issues and help cities plan for future growth.

Relationship to CAS

The Bank Country Strategy (CAS FY09-12) for India organized the Bank’s support to India around three pillars: (i) achieving rapid and inclusive growth, (ii) ensuring that development is sustainable, and (iii) increasing the efficiency of service delivery. This project will contribute directly to the objectives of pillars i and iii by demonstrating scalable approaches to dealing with informal settlements with the objective of bringing existing slums within the formal system and enabling them to have the same level of basic services as the rest of the city.

The proposed Project is also consistent with the FY09-12 CAS Principles of Engagement for the Urban Development Sector which recommends that Bank engagement in the urban sector should be designed within the context of the principles outlined in JNNURM, and focus on reforms and investment that lead to systematic improvements in access by poor households to services and assets.
II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The Project Development Objective is to improve physical living conditions in informal settlements in selected cities in India. This will be achieved through the provision of basic infrastructure (access roads/paths, water, drainage, street lighting and solid waste collection) in informal settlements.

Key Results (From PCN)

The key PDO level results indicators for the proposed project are the following:

• Number of households provided with integrated slum improvement services
• Improved state and local government capacity to plan, implement, monitor, and evaluate slum-free city plans, undertake urban upgrading and land delivery, using participatory approaches.
• Enhanced state and local government capacity to effectively plan for future urban growth and demand for low-income housing.

The Core Sector Indicators to be included are (number of):

• People in urban areas provided with access to “Improved Water Sources” under the project.
• People in urban areas provided with access to “Improved Sanitation” under the project.
• People in urban areas provided with access to all-season roads within a 500 meter range under the project.
• People in urban areas provided with access to regular solid waste collection under the project.

III. Preliminary Description

Concept Description

The project will function as a national financing window accessible to cities that meet agreed minimum requirements. The project seeks to: (a) incentivize and support states and cities in implementing their slum-free city strategies through in-situ upgrading of tenable slums; and (b) provide technical assistance to states and cities in addressing regulatory and policy challenges that impact the urban poor and which relate to tenure, land use and land markets. The project would thereby demonstrate scalable approaches to dealing with informal settlements in an integrated manner.

Access of states and cities to project financing would be based on criteria to ensure that participating states and cities are: (i) committed to the achievement of the objectives of the project; (ii) willing to focus on the implementation of cost effective, socially sustainable, and integrated solutions to the challenge of slums and urban poverty; and (iii) have the capacity to implement the proposed solutions city-wide within the time frame of the project.

The number of participating states and cities needs to be limited to a manageable number. It is therefore envisaged that this would result in around 10 to 15 cities participating in the project. Preliminary calculations indicate that the total population across all such participating cities should be between 10 million and 20 million. A two-phase selection process is currently envisaged. Under the first phase, up to six cities would be selected, for a total Bank financing of up to US$ 200 million. The selection of Phase-I cities would be completed prior to appraisal in order for detailed assessments to be carried out in these cities as part of the Project appraisal process. A second selection process would be open shortly after completing project preparation and would build on the lessons learned from detailed appraisal carried out in the Phase-I cities.
The project’s value added would be to work with participating states and cities to demonstrate cost effective and sustainable approaches to the implementation of RAY and similar programs aimed at tackling the challenge of slums and would focus on both improving existing slums and demonstrating how land can be packaged, serviced and delivered at affordable levels.

While it is recognized that the overall objectives of RAY go to the core of the informality challenge by looking to address issues of tenure and minimum size of housing, the project will not make allocation of property rights and housing size a pre-condition to bring basic services to slums. If successful, this could be a model for the next generation of projects tackling slums in India.

The project will finance the following four components:

Component 1: Financing of selected physical infrastructure investments (US$ 400 million).
This component would support selected states and cities to finance a share of their contribution as defined under the RAY, JnNURM, or state-level programs. Financial terms and share of this financing would be defined during project preparation based on discussions with the GoI, states, and cities. Investments eligible for financing under this component could include:
1.1 Design and implementation of slum settlement improvement: access roads/paths, water, drainage, street/pathway lighting and solid waste collection.
1.2 Connection of settlement infrastructure to trunk/main infrastructure.
1.3 Piloting options for increasing the supply of affordable land

The slum level improvements under component 1 will be restricted to extension of basic services, and relocation of slum dwellers is not envisaged under the project. However, there may be temporary relocation or limited displacement linked to requirement for infrastructure improvement. A comprehensive Social and Environment Assessment will be carried out during project preparation, and a Social and Environment Management Framework will be prepared by appraisal.

Component 2: Support to community mobilization/participation in planning for and supervision of settlement level infrastructure provision (US$ 50 million).
This component would fund the facilitation and mobilization costs at each participating city and settlement to ensure the resident community participation in the planning and design of settlement level infrastructure. Enabling the recording of community information and undertaking community mapping and street addressing will be required to establish credible community frameworks. Global experience with successful slum upgrading initiatives clearly indicates that resident community participation at the design as well as implementation stages of upgrading is not only required but is essential.

Component 3: Project implementation and technical assistance to implementing agencies at city and state level (US$ 40 million).
This component will support the PMU/PMCs at the state and city levels to implement project activities. TA would be provided to participating states and cities with the objective of creating an integrated platform to implement programs for the urban poor and to ensure adequate implementation of the proposed physical investments as well as piloting of innovative approaches. These would focus on financial management; planning for future growth; project development and implementation; interfacing with prevailing urban poverty programs; and related policy reform options for: (i) incremental improvements to tenure security/property rights; (ii) reviews of the regulatory framework relating to urban land use planning; and (iii) analysis of the operations of
land markets in urban and peri-urban areas, and options for improvement of urban land delivery systems and land-based financing. The objective of such policy reforms is to support state and local government activities to improve the efficiency and equity of urban land and housing markets.

Component 4: Project implementation and technical assistance to Ministry of Housing and Urban Poverty Alleviation (U$ 10 million)
This component would fund the PMU at the Ministry level. TA would be provided with the objective of creating a strong unit that can provide direction to and support the programs at the state and city levels and would support both the RAY and JNNURM programs as well as the National Urban Livelihoods Mission in an integrated way.

IV. Safeguard Policies that might apply

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V. Tentative financing

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