Contribution of Urban Informal Settlement Dwellers to Urban Economy in India

Final Report

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Executive Summary

The phenomenon of increased urbanization in India is facing one of its foremost challenges in the form of disparity between redistribution of economic opportunity and growth. The centre of poverty is gradually shifting towards urban centres and this situation is further worsened by already high population densities, poor infrastructure and a general lack of effective housing policy and provisioning for the poor. The Census of India 2011 suggests that 66% of all statutory towns in India have slums, with 17.4% of total urban households currently residing. However, this estimate of slums takes into account certain criteria set by the Census for a settlement to be featured as a slum. A large proportion of households who are living in similar or poorer dwelling conditions than those living in slums have been omitted. This study encompasses all those settlements that comply with the definition of slums (as given by the Census of India) as well as those with similar or poorer dwelling conditions that those of slums as ‘Informal Settlements’, because these are primarily dwelling units where most of the urban poor live. Interventions should be targeted at all these informal settlements instead of only slums as defined by the Census, since the quality of life and infrastructure in these informal settlements are similar to those of slums.

The objective of the present study is to look into the contribution of informal settlement households to urban economy. The primary reason for looking at this particular question is to determine whether the informal settlement households, who normally form the poor strata of the urban population, do contribute to the urban economy to a significant extent or not. If they do contribute to urban economy, whether providing proper urban services to them should be treated as their legitimate right? For greater comprehension, this study attempts to discover the role of informal settlement population as a productive agent in urban economy, which is in contrast to the general notion that this section of population is “burden to the city.”.

A primary survey of 50 top cities in India was conducted to achieve the study objective. The survey captured various socio-economic–demographic dimensions of urban informal settlements dwellers in these cities. A total of about 5350 households and about 24500 individuals were covered in the survey. The focus of the questionnaire was to capture information about income–expenditure, employment, nature of job, education, living conditions and the similar information to understand the economic component of their life as well as their standard of living. Subsequently, we construct a social accounting matrix (SAM) of India that includes urban informal sector as a component. SAM is the best possible tool that takes into account the inter-linkages among various economic agents within an economy. One of the advantages of SAM is
that it can incorporate certain sections of households into a framework whereby the impact of that section on the economy in terms of contribution to income (GDP) as well as the multipliers can be computed, thus allowing precise quantification of the informal settlement population’s contribution to urban economy. In addition, the study also captures the perceptions of non-informal settlement households regarding the role of the target segment of population in a city life. This qualitative analysis provides an understanding of the shadow cost of non-existence of this section of population in the urban centres.

The following are the important points of the study for an understanding of urban informal settlement population’s contribution to urban economy.

- In the million-plus population cities, nearly 40% of the households live in slums. Five metropolitan cities of the country, namely, Mumbai, Delhi, Chennai, Hyderabad, and Kolkata, account for more than 50% of the total slum households in the country. States such as Delhi and Maharashtra raise concerns as they already have a high slum population and are, according to a recent report by National Building Organization (NBO), expected to face relatively high growth rates in the coming years.

- The Census of India 2011 shows that about 35% of the slum population does not have access to ‘treated’ tap water from a municipal corporation. More than 25% of the slum dwellers use water from handpumps, tubewells or some other undefined sources that might be highly hazardous to their health.

- Maharashtra, Odisha, Chhattisgarh and Delhi show that about 50% of slum dwellers do not have sanitation facilities within house premise. Bihar, Odisha, Jharkhand and Chhattisgarh have more than 40% of slum households practicing open-air defecation. This figure is also high for Rajasthan and Madhya Pradesh.

- At an all-India level, 36% of slum households do not have three basic facilities, viz., electricity, tap water and sanitation, within the house premises. States such as Bihar, Assam, Chhattisgarh, and Odisha reveal a very sad state of affairs with less than 20% of the slum with these basic amenities.

- Though the slum itself is neglected by the authorities that is evident from above observations, there is a stark differences between facilities available at notified and non-notified slums. Non-notified slums have significantly poorer amenities compared to notified slums.

- The primary survey data suggest that self-employed workers in informal settlements have greater average earning than their counterparts employed as casual labour and even those in regular salaries/wage jobs. However, significant variations are observed across cities. This employment status category might be the repository of much disguised unemployment in
informal settlements as seen by the fewer number of months being worked by casual labourers.

- Informal sector is found to be the most important employment source for informal settlement population in the distributions across livelihood categories. Majority of employed members in informal settlements are in the unskilled service worker category. Among business owners, we see the range of informal sector enterprises that are being run by the residents of informal settlements, most of them as service providers where formal provision is inadequate.

- Within informal settlements income varies significantly. Though at the lower income level, income and expenditure are almost equal in most cases, the expenditure to earnings ratio of informal settlement households decreases with increase in income. Food is expectedly the most important expenditure category, especially for the lower income households within informal settlements. On an average, expenditure on food is almost half of the total monthly income. Health, education and conveyance also have significant expenditure shares.

- Debt is quite common among the informal settlement dwellers. However, penetration of banks and microfinance institutions is found to be low.

- A majority of informal settlement dwellers have lower than middle school education. Income, as expected, increases with higher level of education. Tenure security and housing conditions, which are important indicators of socio-economic status, vary across cities. A sizeable proportion of the informal settlement population is composed of migrants, who are primarily from rural areas, but not necessarily from different states. The migrants were predominantly of the permanent sort who had been living in the city for many years. The motivation for the migration was mostly unemployment or low wages in the place of origin.

- Large proportion of informal settlement dwellers are in productive age group. Therefore, with better facilities and living condition, increased productivity level of this section of population can boost the economy further.

- The survey shows that new migrants face difficulties in settling in a new cities in terms of various dimensions of daily living. The major problems they face are in terms of rent, access to PDS, access to banking facilities, land tenure facilities

- Proportion of female earning members and the female work participation is much lower than the male members, which perhaps is an indicator of gender inequality in availing employment opportunities.
Through constructing SAM including informal sector dwellers as an economic agent, the study has captured direct, indirect and induced impact of activities (related to both production and consumption) of informal settlement dwellers on urban economy.

- GDP multiplier of informal settlement dwellers is 1.4, which in simple words suggests that because of one extra unit of increase income by informal settlement households, total of 1.4 units of GDP will be experienced as total impact (including direct, indirect and induced).

- Assuming that urban GDP is about 60% of total GDP, the total contribution of informal settlement dwellers to urban GDP of India is 7.53%.

- Total output multiplier for economic sectors is 2.90. This suggests that an injection of one additional unit of demand from informal settlement households will result in an additional output generation of 2.90 units in the economy.

- Total household income multiplier of informal settlement dwellers is 2.0. This suggests that an injection of one additional unit of demand from informal settlement households will result in an additional household income generation of 2.0 units in the economy.

- In case of most of the production sectors, urban informal settlement households show a higher multiplier than rest of the urban households. Education is the only sector where multiplier is higher for rest of the urban households than informal sector households.

- The probable reason for higher multiplier for urban informal sector is that because of aspirations to catch up with urban lifestyle, any extra income of urban informal settlement dwellers is converted to consumption and savings are scarce. On the other hand, in case of non-informal settlement dwellers in urban areas, additional income is generally converted into savings. Thus consumption propensity of urban informal settlement dwellers for any additional unit of income is higher than non-informal settlement dwellers.

- The initial reactions of the non-informal settlement households about contribution of informal settlement population were extremely negative. For about 50% of informal settlement dwellers play more negative role in an urban life than contribute positively.

- However, once the discussion moved towards the likely effect of non-existence of this section of population, majority of the non-informal settlement respondents felt that their lives will be affected adversely by their absence because many of the activities undertaken by urban informal settlement dwellers are irreplaceable as those are neither remunerative nor attractive for non-informal settlement population.
• About 40% of the non-informal settlement urban sample households think that their daily life will be affected adversely if the informal settlements and the people living there are removed.

• Most of the non-informal settlement dwellers feel that informal settlement dwellers should be given better basic services since they are integral part of the city life.

A Few Final Words

On the contrary to the general notions, the study suggests that informal settlement dwellers play positive roles in urban economy as well as urban life apart from a few known adverse roles. Their contribution to urban GDP, and some of the “difficult to replace” nature of jobs they are engaged in, makes them an integral productive economic agent of the urban economy. Based on the Census of India 2011 data, as well as primary survey data of informal settlements of 50 cities, the study also suggests that a large proportion of the households do not even have access to the basic facilities. As the services provided to this section of population are often considered as favour to the community rather than their basic right, the approach and attitude of the authorities needs to be re-examined. Certainly the informal settlement dwellers deserve the basic facilities that other urban dwellers enjoy as their right. This needs to be translated into policies by the policy makers and opinion leaders of the country.
Section 1: Informal Settlements in India – A General Perspective

1.1 Background
India has been experiencing a steady increase in urban population, which has grown from 78.9 million in 1961 to 377 million in 2011, now accounting for almost a third of the population. While decadal growth of rural population has slowed down from 18% during 1991–2001 to 12% between 2001 and 2011, the urban population growth rate has remained stagnant at a little higher than 30%. In fact, for the first time since independence, the absolute decadal change in urban population at 91 million was higher than the decadal change in rural population.

Cities and towns are increasingly becoming the economic nerve centres – drawing investments, technology and manpower; accumulating skill, capital and knowledge, and thus fostering innovation – enabling rapid increase in its contribution to overall growth of the economy. Consequently, urban India now accounts for a dominant share in the economy. According to the McKinsey report titled “India’s Urban Awakening,” almost 60% of the country’s GDP is accounted for by urban India, which by 2030 is likely to expand further to amass a 70% share. While on the one hand it certainly is an opportunity, on the other hand it also embraces a number of challenges within the system.

The foremost challenge it poses, and that in all likelihood is going to accentuate further, is the disparity it has created between population distribution and economic opportunity. If two-thirds of population residing in the rural areas is living on about one-third of economic contribution, this surely leads to a significant income inequality across the rural–urban divide. This inequality and lack of opportunity not only fans rural–urban migration, but also results in a shift in the centre of poverty. This is not only an India-centric phenomenon, but also worldwide. UN-HABITAT estimates that 95% of population growth in the world’s poorest regions will be in urban areas. As a result, cities will increasingly become the centre of poverty in the coming years.

Migration in itself would not be a major problem, but for the existing high population density in the urban centres, thus creaking infrastructure and a general lack of effective housing policy and

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provisioning for the poor. Considering that cities’ informal settlements are often the “first step” out of rural poverty,\(^3\) migration is only going to create more pressure on the already floundering infrastructure facilities. The absence of and/or ineffective policy intervention and investment in augmenting housing supply and basic amenities for the urban poor has resulted, as expected, in an expansion in the informal settlements across all the urban centres in India.

According to the Census 2011, almost two-thirds of statutory towns have slums and almost one-fifth of urban households in India live in slums. As per the latest Census counts, there were 1.08 lakh slums in India in 2011, accounting for 13.75 million households. Population living in slums is expected to rise to 105 million by 2017 from 75 million in 2001.\(^4\) The UN-Habitat report on the “State of the World Cities 2012-13”\(^5\) also predicted a similar trend across the developing regions of the world. Slum population in the developing regions was about 1.4 billion in 1990, accounting for about 35% of urban population. By 2012 the estimated figure was expected to exceed 2.6 billion, which accounts for more than 45% of urban population. In the South Asian region, the proportion was estimated to increase from 26.5% of urban population to 32.4% over the same period. The worst situation seems to prevail in the Latin American and Caribbean region where almost 80% of urban population lives in the slums, followed by western Asia (67.1%), Northern Africa (54.6%) and Eastern Asia (50.3%). Even in India’s immediate neighbouring countries, the percentage of slum population in total urban population is as high as 62 in Bangladesh, 58 in Nepal and 47 in Pakistan.\(^6\)

### 1.2 Slums in India – A General Perspective

The Census of India defines slums as residential areas where dwellings are unfit for human habitation for reasons of dilapidation, overcrowding, faulty arrangements and design of such buildings, narrowness or faulty arrangement of street, lack of ventilation, light, or sanitation facilities or any combination of these factors that are detrimental to the safety and health. The poorer section of slum dwellers suffer disproportionately from catastrophic illness costs despite the existence of free public health services. Policies need to be implemented that enhance the

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\(^3\) [UN_HABITAT, op. cit.](http://www.unhabitat.org/pmss/listItemDetails.aspx?publicationID=3387)


resilience of poor households against illness costs. Also research suggests that the correlation between slum residence and nutritional outcomes is nuanced and depends on how one defines a slum. This suggests that interventions targeted at slums should look beyond official definitions and include current living conditions to effectively reach the most vulnerable. The Registrar General of India (RGI) has categorised and adopted the following definitions of slums for the purpose of the Census of India 2011.

1. **Notified slum**: All notified areas in a town or city; Notified as ‘Slum’ by State, UT Administration or Local Government under any Act including a ‘Slum Act’.

2. **Recognized slum**: All areas recognised as ‘Slum’ by State, UT Administration or Local Government, Housing and Slum Boards, although these might not have been formally notified as slum under any Act.

3. **Identified slum**: A compact area of at least 300 population (or about 60–70 households) living in poorly built, congested tenements, in unhygienic environment, usually with inadequate infrastructure and lacking in proper sanitary and drinking water facilities.

As seen above, the scope of the definition of slums covers any and every housing unit that is ‘unfit’ for human settlement. This would seem to suggest that there no housing unit where the urban poor reside that have conditions similar to those seen in the slums falling under the three aforementioned definitions. However, the housing data of the Census of India 2011 show that there exist houses with similar or poorer conditions than the official slum housing units in urban areas of India. NBO report suggests that large numbers of settlements are not covered by Census since they do not fulfil the criteria to be defined as slum (threshold number of houses).

The present study attempts to cover informal settlements. This has not been defined by any competent authority in India. Several quarters define the term “informal settlement” loosely in accordance to its literary meaning. However, this important issue needs to be resolved since the major objective of the study is to estimate contribution of informal settlement dwellers to urban economy. Therefore, the settlements that are ignored by the Slum Census because of the enumeration criteria, need to be covered if they share the same characteristics as slum houses. At the same time, the study needs to keep in mind that because of problem in definition, informal settlement dwellers in urban India should not be overestimated.

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7 Sakdapolrak, Patrick; Seyler, Thomas; Ergler, Christina. Burden of direct and indirect costs of illness: Empirical findings from slum settlements in Chennai, South India, Progress in Development Studies, April 2013, Vol. 13 Issue 2, p135-151.


9 Census of India, 2011
To solve this problem, we must define informal settlement dwellers as those who live in similar housing conditions as that of the poorest slum dwellers and add their numbers to the population of slum on the basis of the assumption that the income level and work participation of these households will be similar to at least the poorest slum dwellers. This would remove the possibility of any overestimation of informal settlement dwellers. Certainly this is a better representation of informal settlement dwellers than considering only slum dwellers as being similar. However, the rest of the discussion in this section is related to slum dwellers since the data used for the purpose was obtained from Slum Census 2011, which is the only source for secondary data. Undoubtedly, the living conditions discussed below are an underestimation of the poor conditions that the informal settlement dwellers live in.

The data from the Census of India 2011 show that out of all statutory towns in India, about 66% have slums. Compiling the figures for notified, recognized and identified slums, we find that a total of 137.49 lakh households live in 1.08 lakh slums across India. The 2011 Census data also show that 17.4% of total urban households in the country are currently living in slums. It is known that the extent of economic activities as well as the size of the states varies extensively across India and so also does the slum population. However, assuming this, also the distribution of slum households seems quite skewed in favour of a few states. The distribution as shown in Figure 1.1 reveals that 10 states in the country account for about 85% of total slum households in the country. The top 5 states account for about 65% of total slum households.

**Figure 1.1: Top 10 States - Share of Slum Households in the Country**

![Figure 1.1: Top 10 States - Share of Slum Households in the Country](source: Census of India 2011)
With this skewed distribution of slum population, one can assume that in some of the states the slum population will have a significant share in total population as well, especially in those that are more urbanized and industrialized. This has significant implications on the standard of living in these particular states although those may be ahead of many others in terms of economic activities. Inequality and disparate development seem to be key features in the development process of these states. To answer this question, we have presented percentage share of slum households to total households in the states in Figure 1.2, which suggests that 6 states, namely, Andhra Pradesh, Delhi, Maharashtra, Madhya Pradesh, Tamil Nadu and Chhattisgarh, have 10% or more households of the state living in slums.

![Figure 1.2: Share of Slum Households to Total State Households](source: Census of India 2011)

It can be concluded from the above observations that there will be a few selected cities that are over-burdened with slum population and justifiable are unable to provide even the simple basic facilities to this section of the population. Another plausible corollary to this assumption is that with low level of income, the two primary pillars of development, viz., education and health, are certainly neglected within this group, which is a deeper cause of concern not only for city but also for the country. To corroborate these hypotheses, we have observed city-wise numbers related to slum population and households. If we consider just the cities with a million plus population, we find that nearly 40% of the households in these cities are slum households. The share of top 10 cities in terms of slum population is shown in Figure 1.3, which shows that the top five metro cities, namely, Mumbai, Delhi, Chennai, Hyderabad and Kolkata, account for more than 50% of total slum households in the country. And, the same for top ten cities
comprise more than 65% of the country’s total. Therefore, the above observations highlight two very important points:

1. Slums are not a phenomenon that is noted uniformly in all states.
2. It is more of big city-centric problems, especially those that are notably far ahead of others in terms of economic activities.
3. Respective local governments/city municipalities are facing major problems relating to slums compared to state or central authorities.

With these points, it is more pertinent to understand the future growth of slum population so that the threats to these big cities can be envisaged with further clarity.

The National Building Organization report of 2011 provides projections of slum population till 2017. Based on these data, we have computed the growth rates of slum population for each state from 2012 to 2017. The growth has been computed as Compound Annual Growth Rate (CAGR) instead of annual average so that we can obtain a picture spanning 5 years. Change in absolute numbers of slum population during these 5 years has also been computed to suggest the amount of extra effort the urban authorities need to make to the cities livable for all. The projected CAGR of slum population during 2012–2017 and the predicted absolute increase in

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slum population are presented in Figures 1.4 and 1.5, respectively. As expected, because of the large base, the CAGR for most of the states with large number of slum population exhibited likely lower growth rates than the others. However, the causes of concern are Delhi and Maharashtra. Though the number of slum population is among the top in the country, the predicted growth rates for these states are also significantly higher than many other states. These are reflected through predicted values of absolute change in slum population. In Maharashtra, the number of slum population is going to increase by more than 2000 thousand in next 5 years. Obviously, the larger increase is going to be experienced in Mumbai and its surrounding areas. Uttar Pradesh and Tamil Nadu are the 2 other states where total increase in slum population in the next 5 years will be more than 1000 thousand. Delhi is, with a much smaller geographic area than the other states, going to experience of 532 thousand additional persons to its existing slum population.

![Figure 1.4: Projected CAGR of Slum Population - 2012 to 2017](image)

Source: Computed based on NBO 2011
A book titled *Behind the Beautiful Forevers: Life, Death, and Hope in a Mumbai Undercity*, by Katherine Boo outlines the struggles and living conditions of people living in the Mumbai slum of Annawadi. To provide a much wider understanding of the living conditions, the following discussions and charts provide an understanding of the provision of the basic amenities in slums. The discussion relates to a few basic services as given in slum-related data by Census of India 2011. This looks into the level of availability of a few selected basic facilities or lack thereof among slum households in different states. The indicators chosen considered certain factors that are absolutely essential in enabling a household to live with dignity and have a basic quality of life.

**Sources of Drinking Water**

Drinking water is one of the most important necessities for the well-being of slum households for daily life as well as health-related wellness. Owing to close proximity of slum houses to one another and the attendant problems of poor sanitation and hygiene, slums have the potential to be hot-spots during outbreak of endemic diseases such as cholera, bacteria, dysentery, etc. Clean drinking water limits such outbreaks to a large extent. We look at the all-India distribution of drinking water sources in slum households. Figure 1.6 shows that, at all-India level, about 35% of the slum dwellers do not have access to “treated” tap water. Note that the so-called treated water supplied by many of the municipalities is found to be enough contaminated for spreading serious diseases. About 35% of slum dwellers do not have access to this as well. More than 25% of the slum dwellers use water from hand pump, tubewell and some undefined sources. State-
wise distribution of households who fetch tap water from untreated sources is presented in Figure 1.7. Among the bigger states, Andhra Pradesh, Tamil Nadu, Karnataka, Chhattisgarh, Madhya Pradesh have a significant proportion of slum population who use un-treated tap water.

**Figure 1.6: Distribution of Slum Households in India by Source of Drinking Water (%)**

- Tapwater from treated source: 5.70
- Tapwater from un-treated source: 7.64
- Handpump: 12.67
- Tubewell/Borehole: 8.67
- Other source: 65.32

Source: Census of India 2011

**Figure 1.7: Contribution of Untreated Tap Water to Source of Drinking Water in Slum Households within States**

Source: Census of India 2011

**Availability of Sanitation Facility**

Sanitation facilities are important for ensuring the health and dignity of households living in slums of urban India. A state-wise distribution of urban slum households based on availability of
sanitation facility within the household premises is presented in Figure 1.8. Apart from Kerala, most of the states exhibiting greater availability of sanitation facilities within the house premises are the North-Eastern states. Figures in Maharashtra, Odisha, Chhattisgarh and Delhi show that nearly 50% of slum dwellers do not have sanitation facilities within their house premises. Similarly, the situation in Tamil Nadu, Karnataka, Gujarat and Madhya Pradesh also is quite alarming.

As an extension of poor sanitation facilities across most of the states in the country, Figure 1.9 shows the state-wise incidence of open-air defecation, which is often cited as the cause of many diseases and illnesses. Even if one disregards the utilitarian cost implications of entire households contracting diseases from habitual open-air defecation, we are still staring at the humanitarian aspect, which also does not allow one to overlook this phenomenon in slums of urban India.
To understand overall living condition, we look at the proportion of slum households with three basic facilities: electricity, tap water and sanitation within house premises. These are the preliminary components of an urban life. Figure 1.10 presents state-wise distribution of slum households with all these three facilities. At an all-India level, an average of 36% slum households has these facilities. Himachal Pradesh emerges as the best state in terms of availability of these facilities to slum households. Bihar, Assam, Chhattisgarh, Odisha and others show very poor conditions, with less than 20% of the slum households with access to these basic amenities. This supports the findings of the study by Ajai Srivastava and R. C. Singh that portrayed the poor condition in which the slum dwellers live in Bhilai city.\(^\text{11}\)

Difference Based on Notified and Non-Notified Status

As it has been mentioned earlier that slums are notified as well as non-notified. A relevant question comes to mind that does the status of the slum have any association with amenities available? In other words, whether the quality of living in notified and non-notified slums is same in terms of facilities provide by the authorities. Since Census of India does not provide slum specific information, the study attempted to look for an answer to this question with the help of National Sample Survey Organization (NSSO) data of 65th round. NSSO data provides information on slums for 10 big states. A few parameters have been discussed below to suggest how the status determines or discriminates the living conditions or the provisions of amenities. The parameters chosen to show differences between notified and non-notified slums are:

1. Share of kutcha houses
2. Availability of electricity (for household use and street lights)
3. Share of households with modern septic tank/flush toilets
4. Pucca road
5. Underground sewerage facilities.

Differences between notified and non-notified slums are presented with the help of graphical representation from Figure 1.11 to 1.15. Each of these figures has shown stark discriminations

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against the non-notified slums regarding the chosen parameters. The actual figures are presented in Appendix 1 from Table 12 to table 15. It is clearly evident that the living conditions in non-notified slums are significantly poorer compared to notified slums. Since the living conditions of the slums themselves are abysmal compared to rest of the urban settlements in India, the conditions of non-notified slums suggest complete apathy towards the residents of these settlements.

![Figure 1.11: Share of Kutcha Houses](image1)

![Figure 1.12: Electricity for Households and Street Lighting](image2)

![Figure 1.13: Share of Septic Tank/Flush Latrine](image3)

![Figure 1.14: Pucca Road](image4)
Key Issues Identified

- According to the Slum Census 2011, almost two-thirds of statutory towns have slums and almost one-fifth of urban households in India live in them. The centre of poverty is gradually shifting towards urban centres and this situation is further worsened by already high population densities, poor infrastructure and a general lack of effective housing policy and provisioning for the poor. This has led to the expansion of informal settlements in all urban centres in India.

- In Maharashtra, Andhra Pradesh, Tamil Nadu and West Bengal, the share of slum households to total slum households is significantly higher than in other states. Delhi, Madhya Pradesh and Chhattisgarh are also close to the aforementioned states.

- In cities with million plus population, nearly 40% live in slums households. The metro cities of Mumbai, Delhi, Chennai, Hyderabad, and Kolkata account for more than 50% of total slum households in the country.

- The Census of India 2011 data show that about 35% of the slum population do not have access to ‘treated’ tap water from a municipal corporation. More than 25% of the slum dwellers use water from hand-pumps, tubewells or some other undefined sources. Among the bigger states, Andhra Pradesh, Tamil Nadu, Karnataka, Chhattisgarh, Madhya Pradesh have significant proportion of slum population using un-treated tap water.
- Maharashtra, Odisha, Chhattisgarh and Delhi show that nearly 50% of slum dwellers do not have sanitation facilities within house premise. Bihar, Odisha, Jharkhand and Chhattisgarh have more than 40% of slum households practicing open-air defecation.

- At an all-India level, 36% of slum households do not have basic facilities of electricity, tap water and sanitation within the house premises. Bihar, Assam, Chhattisgarh and Odisha have less than 20% of the slum households with access to these basic amenities for daily life.

- There is a distinct difference between notified and non-notified slums in terms of amenities which show complete apathy of the authorities towards residences of informal settlements.
Section 2: Relevance of the Present Study, Objectives and Methodology

2.1 Relevance of the Present Study

Worldwide, numerous studies have been conducted on several dimensions relating to slum or informal settlements in cities. This ranges from the reasons leading to the growth of informal settlements, the socio-economic-demographic conditions of informal settlement dwellers and how to address issues of informal settlement development, including poverty eradication and enhancing quality of life and the similar ones. A study on African countries finds that external debt, high inequality, lack of planned urban growth, and the exclusionary regulatory framework governing (residential) land supply contribute to the prevalence of slums and squatter settlements. The study also identifies three factors – higher level of income, greater financial stability and investment in infrastructure – as having a significant impact on reducing the incidence of slums and social exclusion.

The degree of shelter deprivation (defined as lack of access to improved water and sanitation, overcrowding, non-durable housing and insecure tenure) among the slum dwellers in a number of Asian and African countries was studied by UN-Habitat, which found significant variation across countries. In essence, it showed heterogeneity across slums, even though the poorest regions tended to host the largest slum population suffering from multiple shelter deprivation. Similarly, the Global Report on Human Settlements 2003 shows that the slums are generally characterised by very poor urban housing conditions, high concentration of poverty and economic deprivation, and limited access to credit and formal employment.

The generally hazardous location of the slums is also reflected in many of the studies. For example, the Global Report on Human Settlements 2003 finds that the lands on which slums develop are often fragile, dangerous and polluted by industrial effluents and noxious waste, and prevalence of water-borne diseases is quite high. The precarious/hazardous location of the slums

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in India is also reflected in the NSSO 65th round report,\(^{16}\) which finds that almost half of the slums were affected by water logging during monsoon.

Similarly, several studies in India also explore the conditions of slums. For example, the CGDR study on the slums of Delhi assesses the socio-economic status of slum dwellers.\(^{17}\) The study analyses the availability of various basic civic amenities, including housing, drinking water, latrine and sewerage system, drainage system, health and education facilities, etc. It finds that most slums suffer from inadequate garbage disposal system, sanitation, and healthcare; open defecation is rampant; and most dwellers suffer from lack of safe drinking water supply. Despite this general lack of amenities, most of the houses are pucca, although fear of eviction looms large due to absence of land rights. Better livelihood has been the primary reason for migration from rural regions of Uttar Pradesh (UP) and Bihar, and unaffordable accommodation has been the main reason for moving into slums. PRIA, which is also active in many of the informal settlements across many cities, have also completed several studies characterizing the condition of such settlements in many of the cities.\(^{18,19,20}\)

The general portrayal by this multitude of literature on the profile of urban slums and slum dwellers is one of deprivation. Slum dwellers generally belong to the lower economic strata, often from the backward communities and migrants from rural areas looking for better livelihood opportunities. The civic amenities here are, in general, considerably poor compared with the rest of the city, resulting in unhygienic living standards. Most of the inhabitants of the informal settlements are also engaged in economic activities that are generally not suitable for educated urban class, like daily labourers, rickshaw pullers, house maids/servants, petty businesses, etc.

However, very few studies exist that have tried to identify or measure the contributions of informal settlement population to the city’s economy. The general perception has been that the informal settlements are primarily a burden on the city’s ecosystem. However, the extent of truth in this perception has remained largely unexplored. There is a gap in the existing literature regarding the contribution of informal settlements and its scientific measurement. Since most

\(^{16}\) NSSO, 2010, Some characteristics of urban slums 2008–09, 65th round. Web link:
http://mospi.nic.in/Mospi_New/upload/534_final.pdf
\(^{17}\) Centre for Global Development Research, 2011, Analysis of Slum Area in Delhi & Alternative Strategies of Rehabilitation Web link:
http://planningcommission.nic.in/reports/sereport/ser/ser_slum.pdf
\(^{18}\) PRIA, 2012, Slum listing report - Patna
\(^{19}\) PRIA, 2012, Slum listing report - Jaipur
\(^{20}\) PRIA, 2012, Raipur: Urban Poverty (Slum) Profile
research studies only discuss economic status or socio-demographic status or availability or lack of it in informal settlements, mostly only slums, there is little awareness the role of this section of population in terms of economic contribution. The current research has made an attempt to bridge this gap between the existing knowledge on informal settlement dwellers and their role in economy of urban areas. This should receive a special attention since 19 million-plus cities report more than 25% share of slum households in total city households. We raise several research questions that need answers to bridge the existing research gap. These questions are as follows.

- How do informal settlement dwellers engage in productive economic works?
- What is the income–expenditure profile of the informal settlement dwellers?
- How to account for the labour as well as income–expenditure profile of this segment of population to measure their contribution to a city’s economy?
- What is the total contribution of informal settlement dwellers – direct, indirect and induced – to urban economy?
- Would the city economy and social life remain unaffected in case this section of the city population simply ceased to exist? In such a scenario, can the non-informal settlement section of the city easily replace the vacuum?

Answers to all these questions are important to arrive at a conclusive decision about the relevance of informal settlement dwellers in a city. Their contribution to economy as well as their role in other socio-economic aspects of city life determines whether they deserve proper services from city governments on their own right rather than being provided as subsidies or so as well as whether policy makers need to re-think the way they treat informal settlement dwellers and in fulfilling their requirements.

**2.2 Objectives of the study**

Based on the research gap identified above, the present study focuses on three crucial issues:

1. **Identifying involvement level of the informal settlement population in cities’ economic activities**: Focus here will be on assessing the economic profile of the households and income earners – their livelihood profile, their income–expenditure profile, their asset profile, tenement status, etc.

2. **To measure direct, indirect and induced contribution of the informal settlement population to cities’ economic scenario**: This issue tries to estimate the share of city
economy accounted for by the informal settlement dwellers and what kind of impact can additional demand from informal settlements have on the output level of the urban economy.

3. **To understand the shadow impact of non-existence of the informal settlement population in cities:** This issue explores the perception and views of non-informal settlement city population on the contribution and importance of the informal settlement dwellers on city economic and social life more qualitatively.

### 2.3 Methodology

To achieve the aforementioned objectives, a three-pronged strategy is used. First, informal settlement household survey is conducted in top 50 cities focusing on the livelihood profile, income–expenditure profile and asset ownership profile and tenement status. The objective here was to characterize the member’s sector and nature of employment, qualifications, individual as well as household earnings, household expenditures across various items, asset holding profile, access to amenities, etc. In short, the informal settlement household data from top 50 cities allows us to present the involvement level of this segment of the city population in the cities’ economic activities. This segment not only contributes by supplying labour to the city, but also contributes to city income through consumption and tax-revenue generation.

To exactly measure this contribution of the informal settlement population to the city economy in quantitative terms, we include Social Accounting Matrix (SAM) as the second element in our analysis. The SAM allows us to understand the value of contribution of people living in informal settlements by capturing direct, indirect and assuring induced impact, measuring contribution to urban income or Gross Domestic Products (GDP) and measuring impacts on different sectors due to additional demands from informal settlement population.

In addition to these two quantitative aspects, the analysis framework followed in the study also includes a qualitative aspect in the form of discussion with non-informal settlement households on their perception about positives and negatives of the existence of informal settlements. This was included to assess their attitude towards informal settlement population, their perception of the contribution that the informal settlement populations are making to the city’s economy as well as the importance of this neglected section of the city population to the overall city economic and social life.
2.3.1 Primary Survey of Informal Settlement Households in Fifty Top Cities in India

As mentioned earlier, the focus of the primary survey of households in 50 top cities (Appendix 2 presents the list of 50 cities covered in the primary survey) was on:

- Livelihood profile – whether the earning members are employed in industrial sector or services or in business, their level of skill, the nature of job (casual, regular salaried, self-employed, etc.), the earning profile, the education profile, etc.
- Income–expenditure profile of household – an overall household-level income and expenditure and item-wise distribution of expenditure have been captured
- Asset ownership profile – asset holdings of the informal settlement households in these cities
- Tenement-level information – ownership of land, nature of housing based on their structure (pucca, semi-pucca, kutchha).

A structured questionnaire was used for the informal settlement household survey. A total number of 5353 informal settlement households (which included 24,445 household individual members) were surveyed across the 50 cities. Out of which, 1,201 households were from the 4 cities, namely, Bhopal, Jaipur, Patna and Raipur, which are representatives of Indian average city in terms of size and economy. These cities have been treated as core cities for the study. In each of the 4 core cities, 10 informal settlements were selected randomly; and from each settlement, 30 households were randomly chosen. Thus, 300 households were sampled from each of these 4 core cities. In the rest of the 46 cities, 3 settlements from each were randomly chosen. The number of households from each settlement remained the same at 30 households. This gave us a sample of 90 households from each of these 46 cities. The duality in our approach in sample selection was borne out of the felt need to study a few of the cities in more detail while attempting to analyse the broad national scenario, and in the face of budgetary and time limitations. While a 5000-plus household sample spread across top 50 cities will give enough representativeness to the sample for estimating the national trend, a 300-sample size drawn from 10 settlements from each of the select 4 cities will allow us to explore inter-city differences with more statistical accuracy than what a small 90 sample drawn from 3 settlements would allow us.

All these four cities are million-plus cities and are capitals of their respective states. Since these cities have some characteristics of metro cities as well as some of smaller urban centres, these cities will provide an essence of urban dynamics of an average Indian city. All these cities are growing rapidly in terms of population and geography and facing the usual problems that are common to rapid urban growth.
Accordingly, while capturing the all-India scenario represented by households’ survey data of 50 cities, we have also analysed city-level information only for the four core cities – Bhopal, Jaipur, Patna and Raipur. All-India-level estimates on different parameters have been computed on the basis of the 50-city sample. These are weighted estimates where the weights have been computed based on an individual city’s share in total slum households in the 50 cities put together. The secondary data on city-wise slum households are collated from Slum Census of India 2011.\(^{21}\)

2.3.2 Estimation of Contribution Informal Settlement Households on Urban Economy – A Social Accounting Matrix (SAM) Approach

Capturing data on contribution of informal settlement population to urban economy is a difficult task, since it not only involves macro-economic aspects of the economy, but also involves all the aspects that the informal settlement population is engaged in different components of economy directly or indirectly. SAM is primarily an extension of Input-Output analysis (I-O) that brings distributional issues to the fore. Since National Accounts Statistics (NAS) considers only consolidated income, outlay and capital finance accounts, distinguishing at most a few aggregated institutions, distributional aspects cannot be captured. Such scenario led to the development of SAM, which originated from research for a pragmatic data system in which both macro-economic aggregates (the growth indicators) and distribution and redistribution could be recorded, and thus integrated.\(^{22}\) It is seen as an extension of I-O accounting system as it fills in the “links in the circular flow from factor. Briefly, an SAM shows how sectoral value-added accrues to production factors and their institutional owners; how these incomes, corrected for net current transfers, are spent; and how expenditures on commodities lead to sectoral production and value added. The “leakages” from this cycle, for example in the form of payments abroad or savings, are also shown. The SAM shows the interrelationship between income distribution and final expenditures. Hence, the impact of a change in demand in one sector on the overall economy is captured in a much broader way in SAM than in an I-O matrix. This is because besides the impact on other producing sectors, SAM also captures the effects on income that operates via household incomes.

\(^{22}\) (Keuning and Ruijter, 1988).
We have used the SAM framework to measure the contribution of informal settlement population to urban economy. The SAM for 2011–2012 has been developed based on the NAS data, primary survey data of informal settlement households in 50 cities and the Census of India data. Macro-economic data are taken from NAS, informal settlement households’ employment, income, expenditure-related data are used from the primary survey, and Census of India data are used for capturing number of informal settlement households. Slum informal settlement household has been used as a separate agent in the SAM structure so that the contribution of this section can be captured separately. On the basis of this model, we have measured combined effect, including direct, indirect and induced, to urban GDP, multiplier effects of informal settlement households on particular production sectors considered for SAM construction. We have also compared multiplier effect of informal settlement households and other urban households, i.e. non-informal settlement households on production structure.

Contribution of informal settlement dwellers to urban economy requires employment, income, and expenditure data at the all-India level. As mentioned earlier, since Slum Census is a significant underestimation of the number of urban informal settlement dwellers, we have estimated the likely number of informal settlement households based on housing data released by the Census of India. According to the Census of India 2011, households living in livable and dilapidated houses in urban areas in India are 247.24 lakh, which is 31.5% of total urban households. According to Slum Census of India 2011, total slum households are 137.49 lakh. Out of these, 57.17 lakh households are living in livable and dilapidated houses, which account for 41.59% of total slum households. Housing data of Census of India 2011 show that in urban areas 247.24 lakh houses are in livable and dilapidated condition. Assuming that 57.71 lakh slum households are included in 247.24 lakh urban houses that are in livable and dilapidated condition, we are left with 190.00 lakh houses whose condition is poorer than about 60% of slum dwellers. To avoid overestimation of informal settlements, one can safely assume that 50% of households living in “livable” houses and 100% of households living in “dilapidated” houses are certainly living in conditions that are poorer than most of those living in slums. The socio-economic profile of these people is no better than slum households by any means. This adds up to 103.54 lakh households that are not considered in slum households but should be included in informal settlement since they live either in similar or in poorer conditions than slum households. This gives us a total number of 241.03 lakh households that we have considered as households living in informal settlements.
2.3.3 Discussion with Non-Informal Settlement Households

Although we could capture data on contribution of informal settlement population to urban economy, some aspects remain un-captured. The shadow effect of non-existence of population residing in informal settlement or population group with similar socio-economic-demographic characteristics on city economy is a difficult task within the scope of the current study. Although some of the shadow impacts can be captured since they can be computed for those with a much bigger effort than the current study, a few of them will always remain un-captured because of their nature of non-convertibility to economic cost. However, within the scope of the present study, we have captured the likely shadow impacts based on simple interaction with non-informal settlement households on their perception about the contribution and importance of the informal settlements on the city’s economy. The interaction was based on unstructured guidelines more in a discussion format. The researchers questioned about 120 non-informal settlement households in different cities to understand their perceptions. This exercise was primarily a probe about the non-informal settlement dwellers’ attitudes towards the informal settlement population, their perception about the contribution of the informal settlements to a city’s economy in terms of labour force, their social and demographic impacts, and on a city’s overall economic and social ecosystem. The questionnaire also solicited their views on how the city economy would be affected if the informal settlements and the peoples residing their ceased to exist.
Section 3: Informal Settlement Households - Findings from Primary Survey of Fifty Cities

This section deals with important socio-economic–demographic characteristics of urban informal settlement dwellers. All major characteristics are covered in this section. Data captured through the structured questionnaire have been analysed and presented here based on the relevance to the present study. As mentioned in the methodology section, the analysis has been presented at all-India level for four core cities (Jaipur, Bhopal, Raipur and Patna). All-India figures are weighted estimates based on weights calculated for each city as given in detail in the methodology part. The four core cities are presented to show primarily city-to-city variation in some of the parameters considered. This helps in understanding differences across cities since all-India numbers represent a more general picture without referring to the variations. The only purpose of including these four cities in the analysis is to provide some city-wise information on socio-economic dynamics along with that of all-India scenarios. The main text has discussed and analysed the data with visuals. Tables are given in Appendix 4.

To provide a complete picture of the livelihood characteristics of the informal settlement population, we have covered education, employment, sectors and status of employment, income, expenditure, expenditure by different items, migration status, indebtedness, asset ownership and basic amenities being enjoyed by this section of population. To make it more comprehensive and reader-friendly, we have presented these parameters in different sub-sections.

3.1 Income and Employment
The UN-Habitat Global Report on Human Settlements 2003 recognises that while informal-sector activities within a city are by no means confined to informal settlements, “slums tend to form the epicentre or principal source of labour for the informal sector.” This also ascertains that most of the economic activities within slums are informal in nature. It would be wrong to assume, however, that the informal sector is made of homogeneous entities. The vagaries and differences in employment, and consequently income in different informal sector livelihood activities need to be classified, and put in the context of the overall scenario of the urban poor in India.

With this context, it is essential to understand the labour market in which the residents of informal settlements engage themselves, and the trends seen in the structure of livelihood opportunities will give us important clues that will further enrich the analysis.
3.1.1 Contribution to City Labour Supply

The share of informal settlement members in the city’s labour supply is in line with the share of the total informal settlement population in the city’s urban population (Figure 3.1).

Figure 3.1: Share of Informal Settlements in City Population and Labour Supply

Jaipur and Patna lie quite below the national average when it comes to the demographic presence of informal settlements in the city – both at an overall level and for labour supply. Bhopal and Raipur, however, are much higher than the national average with regard to the share of informal settlements in the population and labour supply. The similarity lies in the fact that there is parity in the shares of informal settlements to population and labour supply, across the board. Contribution of informal settlement to the pool of labour within a city is in line with their presence within the city.

This also implies that the work participation rates observed in informal settlements is close to the overall work participation rate for the city. In other words, there is no disproportionate unemployment biased against informal settlements observed in India, or the dependency ratios observed in informal settlements is in line with those seen in the rest of the city.

Age distribution of the sample population will help us establish that a large proportion of the informal settlement dwellers are in the productive age group.
As seen in Figures 3.2 and 3.3, for both male and female sample populations, a majority of the people are between 18 and 60 years of age, with close to or more than half the sample population falling in this age group.

3.1.2 Overall Household Income and Contribution to City Incomes
The poor performance of the four focus cities with respect to the all-India average is revealed on observation of average monthly household earnings (Table 3.1).

<table>
<thead>
<tr>
<th></th>
<th>All India</th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall (in Rs.)</td>
<td>10,150</td>
<td>6,283</td>
<td>8,503</td>
<td>6,660</td>
<td>6,763</td>
</tr>
</tbody>
</table>

Figure 3.4 shows the distribution of households across income categories for the four focus cities and across India (50 cities).
Only Jaipur has a distribution fairly in line with the all-India scenario. The other three cities have a much higher proportion of households in the ‘Less than Rs. 5000’ category, and lesser share of households in the ‘Rs. 10,000 to Rs. 20,000’ income category.

Despite the fact that the contribution of employed members from informal settlements to the labour supply of a city is in line with their contribution to the overall city population, this is far from truth when it comes to the informal settlement contribution to earnings, as seen in Figure 3.5.
3.1.3 Why Simply Looking at Income-Employment Contribution Is not Enough?

The low contribution to overall city income might provide some people with yet another reason to believe that slums are a burden on the already limited spaces available in urban areas of developing countries like India. This flawed reasoning does not take into account the underestimation of the social value of many of the activities performed by residents of informal settlements in the course of their jobs.

The unique confluence of caste and class in India has, for generations, ensured that certain positions or tasks in society are traditionally associated with certain people who have a homogeneous cultural identity. The tasks include cleaning of roads, sewers, clearing garbage and a whole host of municipal tasks and duties. These tasks and jobs, which are essential to the functioning of any urban area, have historical caste and purity connotations and have traditionally been the domain of certain disadvantaged and subjugated groups of people. The derogatory stance towards these communities has led to the undervaluation of the roles usually undertaken by them. The undervaluation and low social status of these groups have led to them to constitute the bulk of the low-income households living in informal settlements of urban areas.

Figure 3.6 confirms the distribution of households according to caste in the four focus cities and at the all-India (50 cities) level.

![Figure 3.6: Distribution of Slum Households by Caste](image)

Contribution to labour supply and income is only one side of the story. The distribution with regard to the nature of employment will offer further insights into the contribution of informal settlements to the employment scenario of a city.
3.1.4 Employment Status and Income – Some Observations

The average monthly earnings across employment status show some interesting variations (Figure 3.7).

![Figure 3.7: Average monthly earnings across employment status](image)

While the all-India figures appear to be in line with other studies,\(^{23}\) which indicate that self-employed workers in urban areas seem to earn more than their counterparts working as casual labour, this observation can be accounted for by recognising the role of the informal sector as means of channelling enterprising behaviour such as the setting up of juice shops, or small eateries, or small gumtis/khokas selling tobacco products. Self-employed can also mean workers who have been employed as domestic servants, or those working as hawkers and petty traders. The whole gamut of possibilities that is afforded by the presence of the informal sector seems to bode well for the residents of informal settlements in India, at least in terms of income. This story can be said to be true only if we look at the overall picture in India.

Significant variation is observed across cities. A total of 13 out of the 50 cities surveyed had average earnings of casual labourers surpassing that of self-employed workers. Bhopal is one of those cities where workers employed as casual labour earn more on average than workers who are self-employed. While the informal sector and all its myriad opportunities might be working in the favour of self-employed slum dwellers in many cities, it is evidently not such a haven for self-employment for all cities. All four focus cities have lower average incomes for almost all employment status categories than the all-India average.

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Figure 3.8 shows the distributions in these 4 cities and at the all-India level for proportions of employed members in slums in each employment status category.

Bhopal and Raipur show higher incidence of casual labour and lower incidence of regular salaried/wage workers than the national average.

Considering casual workers in the 4 focus cities, we find that they work fewer months, in general, compared to all-India average (Figure 3.9). This indicates a stronger degree of variation in workforce cities that many a time may not be reflected through the average at country level.

The casual nature of the workforce is undesirable as it is major contributor to poverty.

Bhopal, Jaipur and Patna also record higher incidence of self-employed workers, which could either mean that they are business owners or workers in an unstructured service sector engagement such as maid servant, auto-driver, hawker, etc. This underlies the importance of the role that ought to be played by municipal corporations and state governments with regard to the
nurture and the mainstreaming of the informal sector. By widening the avenues of employment and ensuring hospitable spaces for informal sector activities to flourish, cities can become hotspots of entrepreneurial activity.

3.1.5 Sources of Livelihood
Even when we look at average earnings across livelihood categories, we find that the four focus cities earn less on average for each category (Figure 3.10).

![Figure 3.10: Average Monthly Earnings Across Livelihood Categories](image)

We look at the distribution of informal settlement workers in terms of source of livelihood (Figure 3.11).

![Figure 3.11: Distribution of Employed Members by Source of Livelihood](image)
It is clear that a majority of the workers are employed as unskilled service workers and the contribution of such workers is particularly high in Bhopal. The second highest category contribution across our sample is that of skilled service workers. The former includes those employed members of informal settlements who work mostly in informal sector engagements such as domestic workers, rickshaw pullers, casual labourers, petty traders, junk dealers, shop helpers, etc. The skilled service workers include those employed members who have acquired skills and livelihood knowledge in diverse fields such as electrical works, plumbing, auto repair, tailoring, carpentry, painting, driving, etc.

The preponderance of employed members within informal settlements in the two service sectors points towards an informalization of the labour supply from these areas. Even among the business owners we find evidence pointing towards the same (Figure 3.12).

**Figure 3.12 Share of Business Owners in Each Sector: All India (%)**

- Food and Beverages: 21.3%
- Pan/Bidi etc.: 0.9%
- Groceries: 28.1%
- Artisans: 10.4%
- Manufacturing/Production: 3.4%
- Electronics:Sales/Repair: 3.5%
- Construction: 1.9%
- Communications: 1.5%
- Automobiles: 4.0%
- Laundry: 6.4%
- Tailor/Saloon/Beauty Parlour: 8.1%
- Transport: 3.3%
- Edu/Med Services: 4.0%
- Other: 1.9%

We find that most of the business owners among informal settlement dwellers are in the categories related to small-scale retail items such as groceries or tobacco products, and in the food and beverages sector. The latter includes enterprises engaged in food processing and preservation as well as those operating small eateries. Only about 6% of the business-owning population in informal settlements is engaged in small-to-medium–scale manufacturing and production. About 7% of business owners operate in the transport sector by owning and operating multiple auto-rickshaws/buses/taxis/cycle-rickshaws, etc. A similar proportion of business owners (8%) are engaged in enterprises involving some amount of skilled work (artisans) such as furniture making, woodwork, leatherwork, etc. These figures refer to the owners of informal sector enterprises within informal settlements themselves.
From the sector-wise distribution of business owners as seen in the previous figure, we find strong evidence of services provision by the informal sector. These situations often arise all over the world in areas where the formal provision of services is inadequate.\textsuperscript{24} The large of incidence of ‘Food and Beverages’ and ‘Groceries’ among business owners in informal settlements shows that informal settlement residents are adapting to the lack of services and commercial activities in the formal sector by channelling the demand for these services into informal business activities. These home-based shops in settlements affords the residents the freedom to conveniently buy items in the small quantities that they desire, sometimes even on credit. Personal services are also offered by many of the informal settlement enterprises as can be seen by the share of business owners in categories like ‘Tailor/Saloon/Beauty Parlour’ and also ‘Electronics: Sale/Repair’.

3.1.6 Informal Sector and Informal Settlement Dwellers

The large scope of the informal sector, in all its varied manifestations, has a large contribution to national economies, especially in developing countries. Its role with regard to employment and subsistence of the poorer sections in urban areas is crucial. In informal settlements, the demand for jobs, goods and services is increasing at a rate that cannot be provided for by formal sector employment. The informal sector creates many of the jobs needed by the growing workforce and it fairly compensates for the formal sector’s inability to provide for goods and services.

The true extent of the informal sector in our sample can be understood on examining employment status and sources of livelihood as seen in the previous two subsections. The high incidence of workers employed as casual labour (34% all India) and the large proportion of workers engaged as unskilled service workers (53% all India) definitely points towards the existence of a large informal sector in Indian cities. If we account for the fact that many of the skilled service workers (28% all India) might also be working in informal sector activities (like masonry, carpentry, minor electrical repairs, automobile maintenance) and the reasonable assumption that almost all the business owners in informal settlements (5% all India) are probably in the informal sector, the true scope of the informal sector starts emerging.

There are many theories propounded that explain the existence and persistence of informal sector enterprises in the urban milieu. The one that makes the most intuitive sense in the Indian context is the theory of institutional cost, which says that the reason behind the informal nature of the enterprises mentioned above is that institutional costs are high. Taxing and regulation is an

expensive undertaking on the part of any government body, and the inability to tax people who are already making so little further limits the government’s ability to regulate these economic environments. It can also be argued that many informal-sector enterprises choose not to enter the regulated business environment precisely to avoid taxes and other costs such as time and harassment that simply makes registration not worthwhile. However, this does not mean that these enterprises do not have to pay ‘protection bribes’ to local officials and the police.

Another characteristic of informal-sector enterprises is the existence of casual labour. This often involves activities of the seasonal and temporary nature, although to a much lesser extent than seen in rural areas. The nature of the activities in an informal-sector casual labour job is often of the hazardous or precarious nature, and there is also very little by way of compensation in case of mishaps in the workplace. This is again due to the informal nature of these activities that falls outside labour laws and safety regulations.

As a result of the limited education, skills and socio-economic resources at the disposal of the residents of informal settlements, they form possibly the most important source of supply for the informal job market, largely due to their willingness to work for very low or below-subsistence wages.\(^{25}\) The wages are kept low by the large supply of labour at the disposal of the informal sector due to the large number of workers from informal settlements. This results in wage instability, high turnover rates in jobs and exploitation of workers (especially women and children) in very low-income jobs.\(^{26}\) This increases the already wide gap between different socio-economic groups. It also leads to the ‘a large growth in the demand for low-wage workers and for jobs that offer few advancement possibilities’.\(^{27}\)

### 3.2 Housing Concerns

Contribution of informal settlements can be seen in the context of affordable housing options for the huge pool of low-cost labour whose low incomes limit their expenditure capacity for shelter. In exchange for these low costs, households tolerate unhygienic living conditions, small and crowded spaces, low access to basic services and insecure tenure.


3.2.1 Tenure Security and Housing Conditions

Unstable tenure severely limits an informal settlement household’s ability to mobilize household capital, and renders it difficult for families to establish firm roots in the city and foster community ties that could be beneficial in terms of income–employment opportunities. Furthermore, because the urban poor are especially vulnerable to changes in their circumstances, providing affordable and secure housing will go a long way in ensuring a decent quality of life to households in the informal settlements.

The distribution of informal settlement households in terms of land ownership status reveals some differences within cities, which might be key to understanding the relative economic status of informal settlement dwellers in different cities (Figure 3.13).

The ‘Patta’ category refers to the freehold type of tenure that provides for full ownership of unlimited ownership and the right to free enjoyment and disposal of objects within the bounds of law. This refers to an ownership of the home and the land on it, which is permanent in nature. This ownership might be privately acquired or allotted through government initiative such as the Rajiv Gandhi Awas Yojana (RAY).

This is different from the “Possession Certificate/Occupancy Right” category, which refers to the state-transferred right to occupy land or property. This category could also refer to the leasehold type of private tenure, which gives the rights to the exclusive possession of the land or property that is transferred for a consideration or rent, for a fixed duration. The certificate/right...
could be valid for a limited period of time or it could also be valid for as long as 99 years, in which case this form of ownership is almost indistinguishable from the freehold-type tenure.

The public and private land encroached categories refer to the non-formal tenure type where security depends on factors such as numerical strength and political support. This is characterised by low entry costs and limited provision of services (Payne, 1997 ibid). The ‘Rented’ category refers to the non-regularised tenant, which is perhaps the most insecure of tenure categories as a contract is unlikely, and the housing and services standards are minimal.

The growth of informal settlements within cities of a developing country such as India reflects serious disparities in wealth, resources and also in terms of access to urban services. The latter is determined to large extent by formal security of tenure.29

The security with regard to tenure can be crucial in guaranteeing the longevity of any positive benefits accruing from increased livelihood opportunities. The tenure security will have repercussions in the approach of informal settlement dwellers to city life – what kind of education they seek for their children, their nature of interaction with municipal bodies and the extent of the fulfilment of their civic rights. This is the rights-based approach to triggering policy change in tenure regularization.

The claim to tenure will also be reflected in the sense of ownership felt towards the city and its spaces. The most intuitive way to address the common complaint of informal settlements being unkempt and unhygienic might therefore lie in enabling informal settlement dwellers to claim the spaces that they live in as their own, so that they can live and work in the city without the constant fear of displacement. This will have implications in poverty alleviation, ability to take housing and other forms of credit and in incentivising informal settlement dwellers to take pride in the upkeep of their homes. This is the functional approach towards arguing in favour of tenure regularization. This is reflected in the housing conditions seen in our sample (Figure 3.14).

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29 Holding their ground: secure land tenure for urban poor in developing countries. Edited by Alain Durand-Lasserre and Lauren Royston.
The role of municipal corporations is crucial. Despite The Constitution (74th Amendment) Act of 1992, which deals with devolving and decentralizing control in many aspects to municipal governments, it has been observed that municipalities are ill-equipped in dealing with these large-scale infrastructural changes. These continue to be overseen by state government departments (public works, public health, town planning, etc.) and other organizations such as the water and sewage boards and housing development authorities. This leads to much confusion in town planning framework and makes it even more difficult to effectively engineer a suitable policy response.

### 3.2.2 Distance from Place of Work

It is often been argued that a robust transportation infrastructure within a city, especially one that is subsidized and aimed towards the residents of informal settlements, can go a long way towards improving access to better job opportunities, in both the formal and the informal sectors.\(^{30}\) Thus, there is often a trade-off between transportation and housing costs. This would mean that employment opportunities that are further away from informal settlements are monetarily more promising. Thus, in relation to the average earnings of employed household members of informal settlements, we can expect those with places of work further away from the settlements to earn more on average than those with places of work closer to the settlement. This is confirmed from our sample (Figure 3.15).

We find that average earnings of individual employed members of households increase with distance from the informal settlement. Individuals are thus making a trade-off between transportation costs and housing costs. In other words, they are willing to live further away from their place of work, and thus have lower costs of housing, in exchange for higher remuneration in their place of employment. Individuals forego the increased transportation costs that results from locating themselves further away from their place of work, in exchange for better pay.

3.3 Education
A way out of this poverty quagmire would be to improve the productivity of the workforce, and this can be done through education. We next look at a few income and employment considerations for education.

Most of the working members in informal settlements had discontinued their education after completing middle school. The four cities under consideration have fewer employed workers who have graduated from school and those who have graduated from college than the all India average (Figure 3.16). This is being fuelled by cities in the western zone and satellite cities like Gurgaon, Noida, Thane, etc.
This might explain why a greater degree of casualisation is observed in the 4 focus cities than in all-India average. Education distribution certainly seems support the theory that the poorer education status of the informal settlement population in these 4 cities leads to a higher proportion of workers being employed as casual labour in unskilled service jobs, which ultimately leads to lower earnings. This explanation finds some support from the average monthly earnings data across educational qualifications (Figure 3.17).

Generally, the average incomes appear to rise in correlation to higher educational qualifications, a fact that is hardly surprising. Thus, no hidden bottlenecks appear in the urban scenario negating the influence of higher education to the point of stifling the desire to pursue education.
Despite the large presence of workers in casual labour, the numbers in other types of better-paying work (of the self-employed or regular wage variety) are definitely prevalent enough for individuals to want to pursue these jobs in order to better their economic status. The zeal to improve one’s lot in life pushes people to pursue further education and ensure that future generations are better educated. This is reflected in the average earnings of employed members across educational qualifications.

Other factors affecting overall economic status such as migration and land holding is discussed subsequently.

3.4 Migration
The Harris–Todaro migration model\(^\text{31}\) was the first of its kind to address the urban–rural divide in wages due to the sticky nature of wages in formal sector employment. This leads to migrations from rural areas to urban cities in search of more profitable employment. However, not all migrants are gainfully employed in the formal sector due to the paucity of jobs. This model says that this will lead to unemployment in urban areas.

In the developing countries, however, this scenario is slightly modified in that migrants who fail to find employment in the formal sector find other means of income in the informal sector. However, it will be interesting to look at some figures showcasing the economic status of migrants and other such questions such as where they have come from and what were their reasons for migration (Figure 3.18).

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Figure 3.18 shows the different proportions in the four focus cities and at the all-India level for the share of migrants to total population, the share among migrants originating from different states, and the share among migrants who came from rural areas. Patna has the lowest proportion of migrants in the city. The share of migrants in cities lends support to the idea that although the major part of urban population growth in informal settlements occurs through natural population growth, the share of migrants in cities will continue to be substantial as urban areas continue to provide better income–employment and standard-of-living choices.

Migrants are mostly of the permanent sorts who have been living in the city under consideration for more than 5 years (Table 3.2). This means that migrants of the seasonal sort, who return to their place of origin periodically (say during harvest time), are fewer in number. Most migrants in informal settlements reside in the city for the long term. Although regular contact with the place of origin might be widely prevalent, the migrant families call the urban cities their home. It is their place of livelihood, the place where their children go to schools and the place where they have real social ties within the community.

Migration is mostly due to unemployment or low wages in place of origin (Table 3.2). The prime motivation for migration is expectedly the search for better job opportunities owing to reduced income-earning opportunities in rural areas. The shift to the city is not motivated to the same extent by other socio-political reasons outside the income–employment domain.

Table 3.2: Migrant Characteristics

<table>
<thead>
<tr>
<th></th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of permanent migrants among total migrants (in %)</td>
<td>98.91</td>
<td>95.07</td>
<td>68.42</td>
<td>97.28</td>
<td>97.26</td>
</tr>
<tr>
<td>No. of years of stay in the city</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less than 5 years</td>
<td>4.35</td>
<td>14.79</td>
<td>7.89</td>
<td>10.88</td>
<td>11.43</td>
</tr>
<tr>
<td>More than 5 years</td>
<td>95.65</td>
<td>85.21</td>
<td>92.11</td>
<td>89.12</td>
<td>88.57</td>
</tr>
<tr>
<td>Distribution in terms of reasons for migration</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>95.65</td>
<td>84.51</td>
<td>86.84</td>
<td>88.44</td>
<td>86.28</td>
</tr>
<tr>
<td>Low wage</td>
<td>2.17</td>
<td>10.56</td>
<td>5.26</td>
<td>5.44</td>
<td>5.12</td>
</tr>
<tr>
<td>Drought</td>
<td>1.09</td>
<td>0.00</td>
<td>5.26</td>
<td>0.00</td>
<td>2.55</td>
</tr>
<tr>
<td>Education</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>1.21</td>
</tr>
<tr>
<td>Social or Political Conflict</td>
<td>0.00</td>
<td>0.70</td>
<td>2.63</td>
<td>0.00</td>
<td>0.03</td>
</tr>
<tr>
<td>Marriage</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>6.12</td>
<td>1.04</td>
</tr>
<tr>
<td>Others</td>
<td>1.09</td>
<td>4.23</td>
<td>0.00</td>
<td>0.00</td>
<td>3.77</td>
</tr>
</tbody>
</table>

It has been suggested that a suitable alternative, which would not result in the uprooting of entire families from their native land, is increasing agricultural productivity with a focus towards agro-based industries, which will establish and strengthen the linkages between rural and urban areas. This rural–urban “partnership” will benefit both parties and forestall the mass exodus to urban areas, which is adding to the already large population pressure.34

Low income housing, prevalent in informal settlements across India, accommodates the large masses of people whose limited earnings do not allow them to afford better shelter and forces them to live in tenuous conditions where the strength of their claim to the land that they live on is weak. It is thus important to look at the tenure conditions of migrants in the sample of 50 cities surveyed.

The study has also made an attempt to understand whether the length of period of stay after migration does impact the migrant resident’s quality of life. A few parameters have been considered to look into this particular concern. These issues are:

- Expenditure on rent
- Access to PDS
- Access to bank account
- Land tenure

Expenditure for rent component by migrants across different categories of years of stay in the city is presented in Figure 3.20. the figure depicts that migrants lived in the city for a longer time span spend lower amount on rent each month than those who have lived in the city for a relatively smaller period.

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The survey data also suggest that at the initial period after migration, the migrant residents of the slums do face problems in accessing facilities that are their basic rights. Only about 16% of the households have access to PDS who have migrated less than 3 years into the city. Not surprisingly, increased years of stay bode well for migrant households, and it fosters a sense of belonging and permanence within the city. This is reflected not just in tenure conditions but in access to welfare as seen by the access to the Public Distribution System through a ration card (Figure 3.21), and in access to financial facilities (Figure 3.22).
There is even a slight increase observed when we look at average monthly earnings across years of migration (Figure 3.23). The survey also suggests that the longer a migrant household stays in a city, the more secure the tenure conditions tend to become (Figure 3.19).

3.5 Gender
It has been argued that the creation of productive employment is an effective means of poverty reduction in informal settlements of India. We explained earlier why it is important to look at education status, land tenure and migration status while analysing the response of informal settlement dwellers to employment creation in terms of the extent to which they avail of these opportunities and their ability (or lack thereof) to convert the opportunities into beneficial consequences for their families.

In and of itself, employment is essential for ensuring the dignity of the individual, and the social integration of informal settlements. For women, access to income is even more important as it increases their bargaining position within the household and this will lead to other desirable outcomes with regard to other variables like education seeking behaviour of children, nutrition status of the household children, and more gender equitable outcomes for the subsequent generation of informal settlement dwellers.

Gender distribution in the total sample is almost equal in our four focus cities – Bhopal, Jaipur, Patna and Raipur. This also seems to be the case for our weighted all-India average across 50 cities (Figure 3.24).
Stark gender inequalities start emerging once we look at the gender distributions of the sample earning members (Figure 3.25).

The difference becomes more defined once we move on to gender differences in the work participation rate (Figure 3.26).
The overall work participation is indicative of the level of dependency faced by the households in the informal settlement. The difference in male and female work participation rates shows the gender disparities in employment outcomes. The work participation rate is lowest in Patna, for both male and female members of the sample.

Labour force participation rates have been rising rapidly since the 1970s and significant increases in participation rates are seen in Latin Americas, and in the East and Southeast Asia. The consequent falling dependency rates are thought to have allowed the savings that led to the large growth of Asian countries since 1980. However, participation rates in South Asia and sub-Saharan Africa have remained virtually stagnant and, on aggregate, can even be said to have decreased since the 1950s.

Figure 3.27 shows the contribution by female across livelihood categories. We find that their highest contribution is in the unskilled service worker category at the all-India level. We find that Jaipur and Patna also have a higher contribution of women as business-owners as compared to other livelihood categories. Raipur also has a higher contribution of women workers in industrial labour as compared to the other three focus cities or the all-India average.

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35 Bloom, D E and J G Williamson (1998) ‘Demographic transitions and economic miracles in emerging Asia’ 

36 International Labour Organization (ILO) online database: ww.iolo.org
Women’s contribution to the overall share of self-employed workers can be seen to be higher than their contribution to other employment status categories (Figure 3.28).

Much of this contribution could be as domestic workers and helpers. The low levels of schooling and education in urban women might exclude them from participating in many sectors of the market.37 Women were also seen to be actively involved in certain informal enterprise activates like food preservation, and even in the operation of grocery shops and pan/bidi/gutkha outlets. These types of self-employed activities do not require a fixed schedule and, in many cases, can

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even be operated from home. This leads to fewer conflicts with the traditional perceived role of the female as the mother and home-maker. Even activities of self-employed nature that take them outside of home allow for greater flexibility in terms of work schedule and the ability to bring their children along with them to the place of work (Levin et al., 2009 *ibid*).

### 3.6 Standard of Living

#### 3.6.1 Expenditure

The average reported expenses to earnings ratio across income groups for the four focus cities and overall 50 cities average is presented in Figure 3.29.

![Figure 3.29: Expenditure-Earnings Ratio Across Income Groups](image)

 Expectedly, the expenditure to income ratio for households decreases as we move on to higher-income groups.

This overall picture does not tell us anything about the areas in which household expenditure is used. We look at the overall India picture for the contribution of each expenditure category to monthly expenses (Figure 3.30).
Figure 3.30: All India: Monthly Expenditure Across Categories (%)

- Food Items: 46.77%
- Health: 7.95%
- Entertainment: 7.38%
- Intoxicants: 3.63%
- Conveyance: 6.01%
- Rent/House Rent: 4.45%
- Water & Electricity Charges: 6.4%
- Telephone Bill: 4.01%
- Education: 6.12%
- Clothing, Bedding and Footwear: 4.17%
- Furniture & Utensils: 0.72%
- Jewellery & Personal Transport: 1.49%
- Other Articles: 1.37%
- Conveyance: 4.45%
- Rent/House Rent: 6.01%
- Water & Electricity Charges: 6.4%
- Telephone Bill: 4.01%
- Education: 6.12%
- Clothing, Bedding and Footwear: 4.17%
- Furniture & Utensils: 0.72%
- Jewellery & Personal Transport: 1.49%
- Other Articles: 1.37%

Scatter: Income - Expenditure of Informal Settlement Households
50 Cities

Scatter: Income - Expenditure on Health
50 Cities
Nearly half of the total household expenses in a month are reportedly spent on food items. There is no other expenditure category to which a comparable proportion of total monthly expenses are devoted. Health and Education also seem to be areas in which a comparably higher proportion of monthly expenses are reported. There is some city variation in these trends. The informal settlement households in Raipur report having spent a higher proportion on food in a month as compared to the other cities and the 50-city average. The expenditure share of health and education is lower in Raipur.

At the all-India level, informal settlement households have to set aside around one-tenth of their expenditure budget for the month on rent and amenities (electricity and water). This share is lower in Patna and Raipur, which could be indicative of more secure tenure. Even if that is the reason, security of tenure is obviously not translating to a better standard of living as these two cities also have high expenditure to expenses ratios and spend a higher proportion of their
monthly expenditure budget on food items, which is undesirable as it heavily curtails the household’s ability to save and better their economic condition.

3.6.2 Indebtedness and Financial Access

3.6.2.1 Debt
The degree of indebtedness among households is an important indicator of lifestyle decisions and their compatibility with current earnings–expenditure trends. We previously saw some evidence of savings on the part of households as seen by the income to expenditure ratio. Whether this amount is being saved for social reasons such as marriages, or for the execution of some entrepreneurial venture like the setting up of a juice shop, is unclear. The same can be said to be true for the debts incurred by households. However, the distribution of employed members in informal settlements in terms of their livelihood source indicates that business-owners are very few in numbers. Thus, majority of loans can be said to be taken for other reasons.

Table 3.3: Indebtedness of informal settlement households

<table>
<thead>
<tr>
<th></th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of Indebted households among informal settlement households (as Percentage of total households)</td>
<td>39</td>
<td>25</td>
<td>45</td>
<td>17</td>
<td>16</td>
</tr>
<tr>
<td>Share of informal settlement households who have taken loans in the past year (as Percentage of total households)</td>
<td>31</td>
<td>25</td>
<td>44</td>
<td>3</td>
<td>12</td>
</tr>
<tr>
<td>Average loan size of indebted households (in Rs.)</td>
<td>39,953</td>
<td>67,020</td>
<td>27,918</td>
<td>36,343</td>
<td>49,354</td>
</tr>
</tbody>
</table>

At the all-India level, nearly one in every six households in informal settlements is indebted with an average debt size of around Rs. 50,000. About 12% had taken a loan in the past 12 months itself (Table 3.3).

3.6.2.2 Financial Access
We also look at the source of the loans that were availed in the past 12 months (Figure 3.31). The high incidence of loans taken from banks and microfinance institutions like chit-funds is significant and together account for more than half of the loans availed in the past one year. Friends, relatives and informal lenders, who have traditionally been the sources of credit, seem to be decreasing in significance, at least in the all-India scenario. The four focus cities lag behind the
national average in this regard as well, with the majority of the loans coming from the very same traditional sources that point towards the limited penetrations of effective means of credit.

This limited access to bank credit is striking considering that on average two-thirds of informal settlement households have bank or post-office accounts (Table 3.4).

**Table 3.4: Access to bank/post-office account & Microfinance**

<table>
<thead>
<tr>
<th>Source of loan share (%)</th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of households with access to organised banking facility</td>
<td>3%</td>
<td>7%</td>
<td>3%</td>
<td>70%</td>
<td>36%</td>
</tr>
<tr>
<td>Proportion of households with access to Microfinance Institutions</td>
<td>6%</td>
<td>5%</td>
<td>8%</td>
<td>10%</td>
<td>18%</td>
</tr>
</tbody>
</table>

We find evidence of low penetration of microfinance institutions in informal settlements of India. This is further compounded by low take-up rates of microfinance initiatives. The traditional function of loans as last-minute recourses to consumption crunches has resulted in a very negative connotation being associated with being in debt. It has been suggested that many credit-worthy respondents, who could have possibly used their credit towards some fruitful ventures that might have improved their economic status, choose not to do so because of this hesitation to be in debt.\(^{38}\) This asymmetry of information might actually be attracting only the bad debt among informal settlement households. These multiple tiny loans taken from

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microfinance outfits might be leading to credit bubble in certain cities with too much money chasing too few good candidates.³⁹

3.6.3 Welfare Benefits: Public Distribution System
We asked households if they had access to the Public Distribution System via ration card (Table 3.5).

Table 3.5: Access to Public Distribution System through Ration Cards

<table>
<thead>
<tr>
<th></th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proportion of households with Ration Cards (as percentage of total households)</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td></td>
<td>67</td>
<td>71</td>
<td>61</td>
<td>69</td>
<td>70</td>
</tr>
</tbody>
</table>

We look at the distribution of households according to the type of ration card possessed, out of the number of households who have a ration card (Figure 3.32).

The contribution of BPL Ration cards is highest among the sample of ration card holders. The four focus cities are more inclined towards having BPL and Antodaya cards as compared to the all-India (50 cities) average.

3.7 Other Socio-Economic Attributes

3.7.1 Participation in the Political Process
Votes from informal settlements have been traditionally associated with having some clout in the outcome of polls conducted at the national, state and municipal levels. The reason behind this can be understood once we look at the figures for participation in the voting process in informal settlements (Table 3.6). A household was deemed to have participated in the process if at least one member from that household had voted in national, state or municipal elections.

<table>
<thead>
<tr>
<th>Participated in political activities (% of total households)</th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bhopal</td>
<td>90</td>
<td>80</td>
<td>91</td>
<td>93</td>
<td>74</td>
</tr>
</tbody>
</table>

The traditionally poor-performing cities seem to do much better than the all-India average in this regard. This could be because the urban poor living in informal settlements have a higher stake in the outcome of elections. The party coming into power might have significant consequences with regard to job creation, access to welfare benefits, improvement of infrastructure, and tenure security. This might be the reason behind such high voter turnouts observed in informal settlements.

Participation in the democratic process through voting does not translate into political power, which has the ability to influence policy. The lack of political clout has been cited as one of the reasons behind informal settlements existing as poverty-stricken and badly serviced places in cities. The increased socio-economic marginalization leads to a feeling of pervasive abandonment. The skewed voter ratio in informal settlements might lead political outfits to woo them with one-time hand-outs such as interest free loans and school-bags. The attempt at any long-term benefits related to livelihood and rehabilitation might be largely ignored, leading to the informal settlement dwellers purely being viewed as vote banks and not citizens who are involved in the democratic process and with rights.

3.7.2 Social Participation
The socio-economic networks cultivated in informal settlement environments can act as catalysts for upward social and economic mobility. The social capital available in slums might have two

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40 Auyero, J (1999) ““This is a lot like the Bronx, isn't it?” Lived experiences of marginality in an Argentine slum’ International Journal of Urban and Regional Research 23(1): 45–69
distinct characteristics – they might be instruments of social support that allows an informal settlement household to get by in time of strife and scarcity, or they might be agents for social leverage that allows these settlement households to improve their lot in life. Either or both of these characteristics might be applicable to social capital of an informal settlement.\footnote{Briggs, X D S (1998) ‘Brown kids in white suburbs: Housing mobility and the many faces of social capital’ \textit{Housing Policy Debate} 9(1): 177}

We highlight some evidence on the incidence of social inclusion in informal settlements in India from our sample. During the survey, respondents were asked whether they belonged to a Slum-dwellers’ Association, any Youth Associations, and/or Women’s Associations. This will be indicative of the extent to which social ties exist that manifests in the membership in any of these community associations (Table 3.7).

\textbf{Table 3.7: Social Participation}

<table>
<thead>
<tr>
<th>Membership in Slum-dwellers Association/Youth Associations/Women’s Associations (% of total households)</th>
<th>Bhopal</th>
<th>Jaipur</th>
<th>Patna</th>
<th>Raipur</th>
<th>All India</th>
</tr>
</thead>
<tbody>
<tr>
<td>12</td>
<td>2</td>
<td>2</td>
<td>7</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

The responses listed in Table 3.7 have been recorded from households regarding whether any family member has membership in either the Slum-Dwellers Association, or any Youth or Women’s Associations. The numbers are very low, pointing towards a limited degree of social inclusion or rather social belonging.

\textbf{3.8 Key Issues Identified in this Section:}

- The contribution of informal settlements to the labour supply in the 50 cities that formed our all-India sample is in line with their presence in these cities as measured by their share to the city population.
- Income, expenditure and employment status vary significantly across cities. In metro cities, these are much above many of the tier 2 towns as we have noted while comparing between all-India average with four core cities of Bhopal, Jaipur, Raipur and Patna.
- The all-India picture suggests that self-employed workers in informal settlements are earning more on an average than their counterparts employed as casual labour and even those in regular salaries/wage jobs.
- The dominance of informal sector employment is noted in the distributions across livelihood categories. Most employed members in informal settlements are in the unskilled service worker category.
Among business owners, we see the range of informal sector enterprises being run by the residents of informal settlements, many of which are in provision of services where formal provisions are inadequate. With limited education, skill level and low socio-economic status, residents of informal settlements are the most important source of supply for the informal job market.

A majority of informal settlement dwellers, especially in the focus cities, have lower than middle school education, with the four cities showing higher illiteracy rates than the all-India average. Income expectedly increases with higher education.

Tenure security and housing conditions, which are important indicators of socio-economic status, vary across cities. A sizeable proportion of the informal settlement population is composed of migrants, who are primarily from rural areas, but not necessarily from different states. The motivation for the migration was mostly unemployment or low wages in the place of origin. The contribution of females to the sample of earning members and the female work participation is much lower than the male ones, which shows gender inequalities in availing employment opportunities.

The expenditure to earnings ratio of informal settlement households decreases with increase in income. Food is expectedly the most important expenditure category and on average it consumes almost half of the total monthly expenditure. Health, education and conveyance also have significant expenditure contributions.

The degree of indebtedness among informal settlement households is higher in the four focus cities. The nature of indebtedness is also different in these four cities from the all-India picture, with a greater reliance on informal networks as a source of loans. The penetration of banks and microfinance institutions is found to be low in the sample of informal settlement households.
Section 4: Measuring Contribution of Urban Informal Settlement Dwellers

4.1 The Model

This section sets out the framework of a social accounting matrix (SAM) and shows how SAM can be used to estimate contribution of informal settlement dwellers to the urban economy of India. SAM is a particular representation of the macro- and meso-economic accounts of a socio-economic system that captures transactions and transfers across all economic agents in the system. The prime features of an SAM are as follows:

- “First, the accounts are represented as a square matrix; where the incomings and outgoings for each account are shown as a corresponding row and column of the matrix. The transactions are shown in the cells, so the matrix displays the inter-connections between agents in an explicit way.

- Second, it is comprehensive, in the sense that it portrays all the economic activities of the system (consumption, production, accumulation and distribution), although not necessarily in equivalent detail.

- Third, the SAM is flexible, in that, although it is usually set up in a standard, basic framework there is a large measure of flexibility both in the degree of disaggregation and in the emphasis placed on different parts of the economic system. An overriding feature of an SAM is that households and household groups are at the heart of the framework; only if there exists some detail on the distributional features of the household sector can the framework truly earn the label ‘social’ accounting matrix.

- Also, an SAM typically shows much more detail about the circular flow of income, including transactions between different institutions (including different household groups) and between production activities, and in particular recording the interactions between both these sets of agents via the factor and product markets.”

A social accounting matrix (SAM) depicts the entire circular flow of income for an economy in a square matrix format. It shows production leading to the generation of incomes, which, in turn, are allocated to institutional sectors. These incomes are either spent on products or saved. The

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expenditures by institutions lead to production by domestic industries as well as supply from the rest of world. Hence, SAM can be used to analyse the relationship between production structures, income distribution and consumption profile of different household groups in an economy. In common with other economic accounting systems, it records transactions taking place during an accounting period, usually one year.

Figure 4.1: Schematic Diagram of Economic Inter-linkages Captured in SAM

Note: The arrows show direction of payments
Source: adapted from Round (2003)
The basic approach to SAM-based multiplier models is to compute column shares (column coefficients) from SAM in order to represent structure and, analogous to an input-output model, to compute matrix multipliers. In doing so, one or more of the accounts must be designated as being exogenous otherwise the matrix is not invertible and there are no multipliers to be had. Therefore, in developing a simple multiplier model, the first step is to decide which accounts should be exogenous and which endogenous. It has been customary to regard transactions in the government account, the capital account and the rest-of-the-world account to be exogenous. This is because government outlays are essentially policy-determined, the external sector is outside domestic control, and as the model has no dynamic features, investment is exogenously determined. The corporate enterprise outlays (e.g. distributed profits and property incomes) are


<table>
<thead>
<tr>
<th>Table 4.1: Basic structure of a SAM</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Expenditure columns</strong></td>
</tr>
<tr>
<td>Activities</td>
</tr>
<tr>
<td>R1 Domestic</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Income rows</strong></td>
</tr>
<tr>
<td>Activities</td>
</tr>
<tr>
<td>R1</td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
variously treated as either being exogenously or endogenously determined. The endogenous accounts are therefore usually limited to those of production (activities and commodities), factors and households (private institutions). Defining the endogenous transactions in this way helps to focus on the interaction between two sets of agents (production activities and households) interacting through two sets of markets (factors and commodities).

Let A be the domestic expenditure coefficient matrix and x be the matrix of sector-wise gross output. In addition, let $y_{\text{ROW}}$ be the matrix of exogenous account. Therefore, the SAM can be written as

$$x = AX + y_{\text{ROW}} \quad \text{.................}(1)$$

or

$$x = (I - A)^{-1} y_{\text{ROW}} \quad \text{.................}(2)$$

If we denote the $(I-A)^{-1}$ matrix as $M$, then equation (2) can be written as

$$x = My_{\text{ROW}} \quad \text{.................}(3)$$

where $M$ is the SAM multiplier matrix, with a representative element $M_{ij}$ the total (direct + indirect + induced) impact on account i due to a change in exogenous injections in account j.

The SAM multiplier has various applications. For instance, if one intends to focus on the impact on production activities due to increased spending by the household, one should look at the column of the households sector corresponding to the rows of the activity sectors of matrix $M$ (i.e. $M_{\text{Activity by Households}}$). Similarly, if one intends to understand the impact of increased production activities on household, one should look at the column of activity sectors corresponding to the rows of the household sectors of matrix $M$ (i.e. $M_{\text{Household by Activity}}$).

To construct a SAM for this study with a base year 2011–2012, we have undertaken the following:

1. The latest available input-output (IO) transaction table of India is for 2007–2008. We have aggregated this input-output into a 10-sector commodity $\times$ commodity IO table. The sector are grouped as follows: Agriculture (AGR), Mining (MIN), Food, Beverages and Tobacco (FBT), Textiles (TEX), Furniture (FRN), Manufacture (MNF), Service (SER), Transport service (TRS), Education (EDU), Health (HLT)

2. This IO coefficient matrix is then price updated to 2011–2012

3. Next, we construct a transaction flow matrix for 2011–2012 using the price-updated IO coefficient matrix

4. Subsequent work involves the extension of the IO flow table to a SAM. Data are sourced from National Account Statistics 2013 of CSO. The methodology follows the approach
adopted by Pal, Pohit and Roy (2012). In this SAM, the households are classified under two heads: rural households and urban households.

5. The supplementary data from survey of urban slums (income, saving, product-wise expenditure of commodities by our sectors) is then used to decompose the row (column) of urban household into followings two rows (columns): urban informal settlement households and urban non-informal settlement households.

6. Thus, SAM for 2011–2012 is constructed

To construct the SAM multiplier, we have assumed the government, row, and capital account as exogenous components. We divide the remaining components of the SAM by the column total. This is the SAM coefficient matrix (A as in equation 1)

We have presented the major findings of this exercise as follows:

- GDP multiplier of informal settlement dwellers is 1.4, which in simple words suggests that because of one extra unit of increase in income by informal settlement households, total of 1.4 unit of GDP will be experienced as total impact (including direct, indirect and induced).
- Assuming urban GDP is about 60% of total GDP, the total contribution of informal settlement dwellers to urban GDP of India is 7.53%.
- Total output multiplier for economic sectors is 2.90. This suggests that an injection of one additional unit of demand from informal settlement households will result into an additional output generation of 2.90 units in the economy.
- Total household income multiplier of informal settlement dwellers is 2.0. This suggests that an injection of one additional unit of demand from informal settlement households will result in an additional household income generation of 2.0 units in the economy.
- In case of most of the production sectors, urban informal settlement households show a higher multiplier than the rest of the urban households. Education is the only sector where multiplier is higher for rest of the urban households than informal sector households.

**Table 4.1: Comparison of Multipliers between Informal Settlement Dwellers and Other Urban classes**

<table>
<thead>
<tr>
<th>Setor</th>
<th>Multipliers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Informal Settlement Households</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector</th>
<th>Direct</th>
<th>Induced</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGRI</td>
<td>0.63</td>
<td>0.29</td>
</tr>
<tr>
<td>MINING</td>
<td>0.09</td>
<td>0.06</td>
</tr>
<tr>
<td>FBV</td>
<td>0.14</td>
<td>0.10</td>
</tr>
<tr>
<td>TEXTILES</td>
<td>0.13</td>
<td>0.08</td>
</tr>
<tr>
<td>FURNITURE</td>
<td>0.02</td>
<td>0.01</td>
</tr>
<tr>
<td>OTHER MANUFACTURING</td>
<td>0.64</td>
<td>0.44</td>
</tr>
<tr>
<td>SERVICE</td>
<td>0.81</td>
<td>0.60</td>
</tr>
<tr>
<td>TRANSPORT</td>
<td>0.28</td>
<td>0.21</td>
</tr>
<tr>
<td>EDUCA</td>
<td>0.09</td>
<td>0.04</td>
</tr>
<tr>
<td>HEALTH</td>
<td>0.09</td>
<td>0.03</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>2.90</strong></td>
<td><strong>1.88</strong></td>
</tr>
</tbody>
</table>

Source: Based on SAM, Indicus Analytics

4.2 **Key Issues Identified in this Section:**

- SAM has measured direct, indirect and induced contribution of informal settlements households to urban economy.
- GDP multiplier of informal settlement dwellers is 1.4.
- Assuming urban GDP is about 60% of total GDP, the contribution of informal settlement dwellers to urban GDP of India is 7.53%.
- Total output multiplier for economic sectors is 2.90.
- Total income multiplier of informal settlement dwellers is 2.0.
- In case of most of the sectors, urban informal settlement households show a higher multiplier than non-informal settlement households. Education is the only sector where the trend is the opposite.
Section 5: Role of Informal Settlements Dwellers – Perceptions of Other Urban Households

In general, a divide can always be observed between urban informal settlement dwellers and other urban classes. Mostly the ideas of non-informal settlement residents are not “friendly” towards those living in informal settlements. One of the reasons is that non-informal settlement dwellers would like to maintain a difference because of socio-economic dissociation between these two groups. But several other perceptions about informal settlement dwellers are also responsible for a social distance between these two groups.

This section has attempted to understand how do the non-informal settlement households feel about the role of informal settlement dwellers within a city ecosystem. Purpose of this was to understand the contribution of informal settlement dwellers to urban life in India from a qualitative perspective. This has been using a semi-structured questionnaire that was canvassed to non-informal settlements primarily in four core cities (Jaipur, Bhopal, Patna and Raipur). It was more discussion based than questionnaire based.

Responses of the sample non-informal settlement households are presented in Figure 5.1. Half the non-informal settlement households covered for this purpose reported that informal settlements have a negative impact on the cities that they are located in. The reasons cited for the same are reflective of the deep-rooted prejudices in the minds of people, which are being mediated through caste and class machinations. The most common adjective used to describe informal settlements and its dwellers by these non-informal settlement households was “dirty” and “unclean.” The negative perceptions seemed to be influenced by safety concerns as many believed that informal settlements were repositories of anti-social and criminal behaviour in the city. These socially sub-optimal conditions that prevailed in slums seemed to be leading this group of people into believing that informal settlements had a bad influence on their cities. Apart from these concerns, many believed that this section of population affected the growth of the country and city by adding unnecessary burdens on “development.” A small proportion of this group of non-informal settlement households believed, however, that this negative impact was not attributable to the residents of informal settlements and it was either due to municipal oversight or negligence, or that it was a undesirable situation whose status quo was deliberately maintained by political powers for their own benefits.
However, about one-fourth of non-informal settlement sample households feel that informal settlements play a positive role in the functioning of a city. These households paid due recognition to the fact that there are many important roles and tasks that are absolutely essential to the functioning of a city, and that these jobs have traditionally been undertaken by poor people who live in slums. These households also recognised the role played by informal settlements in terms of providing affordable housing to the large masses that make up the urban poor. Informal settlements are the chief source of “cheap labour” and this is essential to the effective functioning of many a commercial enterprise. Households also mentioned the fact that informal settlements have often acted as staging points for many a poor migrants from rural and other urban areas for employment opportunities.

The remaining non-informal settlement households that were sampled believed that informal settlements had both positive and negative effects on city life. The reasons were similar to the ones mentioned earlier. Households mentioned that the jobs performed by informal settlement dwellers were essential and that the rest of the city had become used to these services and often took them for granted. As a caveat, these household also brought up safety, sanitation and hygiene concerns while talking about the negative impacts of informal settlements.

![Figure 5.1: Perception about Role of Slum Households in the City](image)

### 5.1 Perceptions regarding the Contribution of Informal Settlement Population to the City

The perceptions of non-informal settlement households regarding the contribution of the informal settlement population are obviously dictated by the modalities of interaction between
the former and the latter. These interactions mostly lie in the domain of unskilled service provision that facilitates the myriad privileges and conveniences, which most non-informal settlement households have come to take for granted. Once these associations were established during the course of the interview, there was a discernible shift in attitudes even for those households that had earlier cited informal settlements as having a negative impact on cities. Households acknowledged the contribution of the population that lives in informal settlements, at least when it came to their own lives. Starting from the domestic help, waste-pickers, sewer cleaners, cobblers, small-scale transport operators like rickshaw pullers, and even plumbers and electricians; non-informal settlement households recognised the contribution of slum dwellers in their own lives at least.

Only about one-fifth of the sampled non-informal settlement households believe that their lives will be unaffected by the non-existence of informal settlement population within a city. The remaining sample of non-informal settlement households mentions several ways in which their lives will be affected if informal settlements were to suddenly disappear from the urban landscape. Most of these potential effects of hypothetical non-existence of slums revolve around service provision by informal settlement dwellers. This continuous involvement in the daily lives of non-slum households has led to dependence on certain groups of people when it comes to fulfilling certain roles in fabric of city life. Traditional caste and class implications have led to serious undervaluation of the jobs and activities usually performed by the underprivileged people living in informal settlements. Some believe that city life without informal settlements would be very difficult and unimaginable as they are the primary source of cheap labour, which is essential to the growth of any urban area.
There are certain people who feel that city life will be positively affected by the non-existence of informal settlements as the city will be cleaner and more “presentable.” These households feel that all the factors that were pulling cities in India behind would go away with the disappearance of slums, and Indian cities will finally be able to compete with cities abroad. The same households also feel that crime will be less if informal settlements were not there in a city, and that cities would become a lot safer especially for women.

Again, there are others who feel that city life is not possible without informal settlements, in that they are entities who would organically crop up in any urban setting with gross inequalities like the ones prevailing in developing countries. These households also feel that forcefully removing populations from informal settlements is counter-intuitive as other homogeneous groups of people would just come and set up base in the same location.

Through the course of the discussion, as respondents become slightly more aware and conscious of the important role played by residents of informal settlements, there was a gradual shift in attitudes, as mentioned earlier. This happened to the extent that almost all sampled households felt that removing informal settlements is not a desirable option. When prompted for possible solutions to the informal settlements “problem,” a variety of suggestions were received including skill development, employment creation, municipal works that not only creates jobs but improves the housing conditions of slums, providing education including adults as well as improving several work conditions.
The general consensus that seemed to emerge at the end of the discussion was that poor people will always exist in any urban situation that can be envisaged currently. They are integral part of city life and city ecosystem. Conditions need to be created that are conducive for economic progress and growth. Living conditions need to be improved and the education and skills of informal settlement dwellers also needs to be bolstered. Overall, majority of the people recognise that absence of the people living in slums will affect the city’s economy adversely though may bring some other benefits. More importantly, removal of these people from an urban life is not the solution since that will not help the city or the society in the long run. Some of their jobs might be replaced by machineries, incurring huge investment on part of the city authorities. But many of them cannot. Apart from viability of replacing their jobs by advanced machineries, this will create social imbalance in terms of income generation as well as unemployment. This would lead to disastrous social unrest, which certainly would have adverse impact on economy as well as socio-economic well-being of the entire country.
The initial reactions of the non-informal settlement households about contribution of informal settlement population were majorly negative. For about 50% of them, informal settlement dwellers play a more negative role in an urban life than contribute positively.

However, once the discussion took on the lines of the likely effect of non-existence of this section of population, majority of the non-informal settlement respondents felt that their lives will be affected adversely since many of the activities undertaken by urban informal settlement dwellers are not replaceable as those are neither remunerative nor attractive for non-informal settlement population.

About 40% of the non-urban settlement sample households think that their daily life will be affected adversely if the non-informal settlements and the people living there are removed.

Most of the non-informal settlement dwellers feel that informal settlement dwellers should be given better basic services since they are integral part of the city life.