



# Implications of alternate policies on welfare of slum dwellers: Evidence from Pune, India<sup>☆</sup>

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## Abstract

In this paper we examine how slum dwellers value location-based amenities. In most developing country cities, residents living in slums have poor-quality dwellings and limited access to basic public services and amenities. Using data from Pune, India, we estimate the residential location choices of slum dwellers, which are conditional on housing quality, neighborhood amenities, and community structure. We use these estimates to simulate the impact of alternate interventions on household welfare. We find that households derive benefits from housing quality and neighborhood amenities. While relocating households to the periphery has adverse consequences for household welfare, we show that households could be adequately compensated out of the increased tax revenue accruing from alternative uses of the vacated central land.

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## 1. Introduction

The economic and social geography of cities is inherently uneven. There is considerable variation in housing quality, public services, local amenities, and household characteristics across as well as within neighborhoods. We observe segregation and ethnic clustering almost as commonly as seeing high-rise apartment developments located next to slum and squatter settlements.<sup>1</sup> Aggregate phenomena of sorting and mixing are intrinsically driven by residential location choices at the household level. Our interest is in examining residential choices in developing country cities, as these cities face unprecedented population growth and limiting fiscal constraints. In particular, we want to examine location decisions of households living in slum and squatter settlements, as many new urban entrants are likely to locate in these under-serviced sites within the city.

In many developing country cities, heterogeneity in land management practices allows different patterns of development (on both public and private land) across parts of the urban landscape. This leads to under-developed land parcels in many parts of the city. These parcels of land often become home to numerous poor residents in the form of slum and squatter settlements, with limited public services. These settlements are often subject to natural hazards (such as flooding), as well as negative environmental (such as illnesses from nearby sewerage sites) and transport externalities (such as the consequences of being located next to railway tracks or roads with polluting and dangerous traffic). Various estimates by the World Bank and UN Habitat suggest that over 800 million people in developing countries live in slum and squatter settlements, most of them being squalid, unsafe environments that create health and security problems (World Bank [19]).

Many land policy interventions have efficiency objectives, that is, to realize the value of land for the landowners, and leading to the eviction of slum-dwellers, with or without compensation. However, some policy interventions are motivated by poverty-reduction objectives, and include ‘slum upgrading’ programs that improve availability and access to local public services and amenities *in situ*.<sup>2</sup> These programs may also include investments to improve the quality and characteristics of dwelling units. In principle, upgrading not only increases the welfare of the slum dwellers who have received these interventions, but may also ‘spill over’ to increase welfare of non-slum dwellers in the neighborhood. These external benefits could include increases in overall property values through improvements in neighborhood attributes (such as better exteriors and less garbage on the streets) as well as direct improvements in levels of public services (particularly those provided on a network, such as water supply and sanitation).

From a political economy perspective, the presence of benefit spillovers of slum upgrading programs to non-slum dwellers is important in ensuring the viability of upgrading initiatives. This is because any strategy on behalf of the poor/slum dwellers is unlikely to be approved in the political or ‘voting’ process if it has adverse consequences or no benefits for non-poor/non-slum dwellers, who presumably bear a disproportionately higher burden of taxes to finance local public goods.

In this paper, we look at the impact on poverty-reduction objectives, that is, improving the welfare of the slum-dweller, of possible interventions to achieve the efficiency objective of maximizing the value of the land. We examine the residential location decisions of slum dwellers and the impact of relocation on their welfare. In particular, we ask the following questions:

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<sup>1</sup> We use the terms ‘slum’, ‘squatters’ and ‘informal settlements’ interchangeably in this paper.

<sup>2</sup> In this paper we use the term “welfare” specifically to describe the utility derived from housing services and related amenities, including the characteristics of neighborhoods and neighbors.

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