India’s pro-investor plans for urban renewal

By Jake Skeers
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Indian Prime Minister Manmohan Singh launched an “urban renewal” program last month designed to attract private investment to 63 of India’s largest and most important cities. His government is proposing to supply more reliable infrastructure and services, remove city regulations that act as impediments to the market, abolish rent caps and provide reliable and enforceable property rights.

State governments and associated Urban Local Bodies wishing to draw from the 500 billion rupees ($US11.2 billion) allocated to the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) over seven years, will first need to sign an agreement to implement a list of 13 mandatory items. A central government directorate will monitor the program and withhold funds from cities not implementing it.

Mumbai, Kolkata, Delhi, Bangalore, Chennai, Hyderabad and Ahmedabad—India’s cities with 4 million plus populations— have been allocated 47.5 percent of the funds. The government has also assigned 47.5 percent of funds to the next 28 largest cities, having a population over 1 million. The remaining 5 percent of funds has been provided to 28 other cities that are state capitals or have religious or other significance.

There is certainly an overwhelming need for proper infrastructure and basic services in India’s cities, particularly in the huge urban slums. In the 1990s, India’s urban population grew by over 65 million, with the fastest growth in the largest cities. An estimated 21 percent of the urban population lives in slums. In Mumbai, the figure is over 50 percent. Some 25 percent of urban dwellers do not have electricity, 23 percent do not have access to toilets and 37 percent do not have potable water in their dwellings. By 2020, some analysts estimate that another 300 million people will live in urban India.

However, the JNNURM plan is not directed at ameliorating the terrible conditions facing ordinary working people, but at satisfying the long-standing demands of business. The World Bank and Asian Development Bank in particular insist that the government must make India’s cities more conducive to private capital.

The government’s objectives become clear when one takes a closer look at the compulsory measures set out in the JNNURM scheme. These include:

* The repeal of rent control laws. These state government laws place a cap on rent increases. The removal of these laws will force many low-income families out of relatively cheap housing.

* The repeal of Urban Land Ceiling and Regulation Acts. The Maharashstra Act, for example, limits individual land holdings to 500 square metres. The legislation allows the state government to take surplus land from private holders and use it to build housing for the poor. It also limits the use of agricultural land for non-agricultural purposes.

* The reduction of stamp duty to no more than 5 percent within seven years. This move will cut state revenues from land sales as well as making property transactions cheaper and easier.

* The implementation of decentralisation as envisaged in the 74th Constitutional Amendment Act, which gave formal constitutional recognition to local governments. The calculation in handing over responsibility for urban services is that local bodies will be more susceptible to business demands.

* The requirement that, within seven years, local bodies levy charges on service users to recover full costs. Users unable to pay will be refused basic services such as water. In addition, local bodies will be responsible for providing basic services for the urban poor from their limited budgets.

* The reform of property taxation using geographical information system software so that “collection efficiency reaches at least 85 percent within the next seven years”.

* The adoption of modern accounting methods and e-governance, to better enable governments to more efficiently collect charges.

Optional reforms include: the revision of by-laws to streamline building and development approvals;

simplification of laws to convert land from agricultural to non-agricultural uses; the introduction of a property title certification system; and the encouragement of Public Private Partnerships (PPP).

The JNNURM states that Urban Local Bodies should provide “basic services to the urban poor including security of tenure at affordable prices, improved housing, water supply and sanitation”. In launching the project, Prime Minister Singh also spoke grandly of the need to help the poor. Far from alleviating the plight of India’s urban poor, this pro-business program will inevitably make it worse.

Even if all the money were allocated to helping the poor, it would not resolve the immense social problems in Indian cities. But the purpose of the plan is to create an “investor friendly environment” and attract greater “private sector investments through PPPs”. These Public Private Partnerships are aimed at maximising profit for private investors, not providing affordable, high-quality services for the poor.

The government’s real aims can be gleaned from the Economic Survey 2005-6, which was handed down along with last month’s budget. “India has the potential to absorb $150 billion in FDI [Foreign Direct Investment] in the next five years in infrastructure alone,” it said. The World Bank, the Asian Development Bank and USAID have been pushing for years for the reforms contained in the JNNURM plan to enable foreign investors to cash in on lucrative infrastructure projects.

Much of the “reform agenda” is to shore up property rights and to streamline investment. Along with inadequate infrastructure such as roads and electricity supply, a major complaint of foreign investors is bureaucratic “bottlenecks”. According to the World Bank, the median time to start a new business in India is 89 days. In Australia, it is 2 days, in the US 5 days and 41 days in China. An estimated 14 percent of senior management time is spent dealing with state government officials over various regulatory issues. In China, the figure is 8 percent.

Far from assisting the tens of millions living in squalour in Indian slums, the program will pave the way for vast clearance programs to open up what is often prime land for other uses. In many cases, slum dwellers have been living on land illegally for years and have no property rights.

The initial results of Mumbai’s urban renewal plan, based upon a report entitled “Vision Mumbai” produced by international consultants McKinsey and Co, indicate what is being prepared.

In 2005, 90,000 huts were demolished, leaving approximately 350,000 slum dwellers homeless, to make way for urban development. As part of the plan to transform Mumbai into India’s Shanghai, “Vision Mumbai” envisages a vast reduction of slum dwellers from 50 percent of the city’s population to about 10-20 percent.

Mohammed Badruddin, who lived with 4,000 others in a Mumbai slum, had his home demolished early last year. He was at work as a floor tiler when he heard news that his home had been bulldozed without warning.

“I rushed back and saw the whole slum demolished,” he told the *Washington Post*. “We resisted the bulldozers, and the police beat us. All my hard work was raised to rubble.” To prevent the inhabitants from returning, the government dumped rotting garbage on the land and employed security staff. Those evicted set up shelters made of bamboo and plastic on a nearby burial ground.

As part of the urban renewal program, many workers have been laid off and factories demolished to make way for new shopping malls and apartment blocks. To provide for growing demand in urban centres like Mumbai, the Maharashstra state government—a coalition of the Congress Party and the Nationalist Congress Party—last year cut off free electricity supplies to farmers across the state.

The implementation of the JNNURM reforms will only accelerate these processes, with devastating consequences for India’s impoverished masses.