and delays, setting up an informal business is preferable in a low-income country.

The informal and formal economies are often interdependent; goods produced at minimum cost in small workshops are then passed on to be finished and sold within the formal economy on the national and international market.

The informal economy makes a large contribution to urban wealth, and cannot be overlooked. It was the basis of the Industrial Revolution in 19th-century Europe, and may therefore be regarded as a transitional but essential stage in the evolution of city economies.

The disadvantages of the informal economy

It has been unfairly associated with such activities as drug pushing, prostitution, political corruption, bribery, and smuggling. This threatens the security of the residents, turns away potential visitors and downgrades the city’s international image. Countries with a sophisticated legal and political system and stronger protection of physical and intellectual property rights experience higher economic well-being. Informally run businesses have none of these benefits, and the lack of legal property ownership limits access to credit.

Workers in the informal economy are often exposed to health and safety risks and deprived of the rights and benefits associated with law and regulation. Lack of protective clothing and inadequate instruction cause contamination by toxic chemicals and heavy metals found in solvents and recycled waste.

Case study: The informal economy of Dharavi, Mumbai

Dharavi is located in the heart of Mumbai, close to the fast-developing commercial centre and to Mumbai’s domestic and international airports. Despite its plastic and tin shacks and lack of infrastructure, Dharavi is a unique, vibrant, and thriving ‘cottage’ industry complex. Dharavi is the largest and oldest slum in Mumbai, the best-known in India, with a population of more than 600,000 people living in 100,000 makeshift homes. Its population density is the highest in the world, at over 100,000 people per square kilometre in an area barely half the size of New York City’s Central Park. Although the concentration of businesses could easily deter consumers, the large scale at which informality occurs yields an estimated $665 million in annual revenues. However, the economic success of Dharavi has a high cost in human welfare. The working environments and conditions are very poor, especially for the newly arrived casual worker.

In dark unventilated foundries, workers ladle molten metal into a bell-mouth mould held between their bare feet. In a warehouse, men smeared from head to toe in blue ink strip the casings from used ballpoint pens so they can be melted down and recycled; few wear gloves or other protective gear despite exposure to solvents and other chemicals. Environmental and health hazards are the realities that workers have to withstand to earn a living.

Its population has achieved a unique informal ‘self-help’ urban development over the years, without any external aid. It is a humming economic engine. The residents, though benefit of housing amenities, have been able to lift themselves out of poverty by establishing thousands of successful businesses. A study by the Centre for Environmental Planning & Technology indicates that Dharavi currently has close to 5,000 industrial units, producing a wide range of goods including textiles, pottery, leather, plastics and poppadums. It also processes 80% of Mumbai’s recyclable waste. Other residents are employed providing services such as transport for their own community, or for Mumbaikars in general. Industrial activity takes place in nearly every home, with a workshop at street level and a living room above. Dharavi’s informal economic activity is decentralized, home-based, low-tech and labour-intensive. It relies on close business networks within a strongly cohesive community. Entrepreneurs employing large numbers of cheap and flexible casual workers can compete in the national and international market, thereby indirectly contributing to the formal economy.

Threats to Dharavi

Unfortunately, the slum based residential infrastructure—one public toilet is shared by 1,400 residents, and water and electricity are available only once a day. The state government deems Dharavi as a large slum, and wants to force its population to relocate into tiny cubby-hole apartments in high-rise towers, so that the vacated land can be commercially exploited by developers through the Dharavi Redevelopment Plan. At a conservative estimate, a development of this magnitude could fetch $450 million for a developer, a profit of at least 900%. Case studies all over the world have documented the inappropriateness of high-rise resettlement projects in poor areas. The social and economic networks on which the poor rely for subsistence in Dharavi cannot be sustained in high-rise structures.

The least that can be done in this redevelopment plan is to refurbish the workplaces of existing industries within the residential areas and remodel the project by providing low-rise, high-density row housing for existing families engaged in home-based occupations. This way, each house will have a ground floor and an additional storey, as well as a terrace and courtyard which can be used for these home-based business activities. Unfortunately, the formulation of the Dharavi Redevelopment Plan as a profit-maximizing real-estate tool leaves no room for exploring such sustainable and economically viable approaches. It exposes the DRP as a weak cover-up for a land grab of the worst kind.

Housing strategies in Mumbai

Mumbai has an acute housing problem, with 8 million people living in slums and squatter settlements close to the centre, where land prices are some of the highest in India. A flat in the centre of the city costs $5100 800, way beyond the reach of slum dwellers.

Two property companies have found a solution outside the city. Matheran Realty are building 15,000 ultra-low-cost flats in...
Karjat, 90 kilometres east of Mumbai, costing 210,000 rupees ($4,500) for a unit of 19 square metres. Tata is building 1,300 basic units — “nano homes” — at Balsar, 100 kilometres north of the city, costing 390,000 to 670,000 rupees ($8,000 to $14,000). The simplest consist of a single room with a sink and a toilet behind a partition. The buildings have no more than three storeys so there is no need for expensive structural work. Instead of bricks and mortar, the walls are made of lightweight moulded concrete blocks. The concrete is made with foam, fly ash and other waste materials to make it lighter as well as cheaper. There are no lifts and just one staircase per block. All this means that the homes can be built quickly and with unskilled labour. Many slum dwellers are drivers, factory workers or tailors with incomes of around 90,000 rupees ($2,000) a year, enough to buy a flat costing 200,000 to 400,000 rupees ($4,200 to $8,200).

Obtaining credit was a problem until recently for slum dwellers with illegal tenure or no permanent address, but now the National Housing Bank and the National Bank for Agricultural Development have agreed to finance companies so they can offer mortgages to these people. To reduce risks, buyers must put down at least 25% of the purchase price and employers must confirm their income.

The construction of low-cost housing outside the city overcomes some of the problems of overcrowding and insanitary conditions found in the central slums such as Dharavi, but there are drawbacks:

- There is no accommodation for the informal businesses that were an integral part of a dwelling.
- Ex-slum dwellers will now have to commute back to the centre to work, causing further problems of traffic pollution and congestion.
- Displacement will disrupt extended families, their social networks and security.
- Close business linkages that existed within the informal economy of the slum will be lost.

There are no easy solutions to Mumbai’s housing problems.

To research

Mumbai’s Dharavi district has been controversial for some years and its survival is in the balance. Visit http://www.nationalgeographic.com/2007/05/dharavi-mumbai-slum/dharavi-video-interactive for a slide show presentation on Dharavi, “Dharavi — Mumbai’s Shadow City.”

Visit The Economist, www.economist.com, for an article on India’s informal economy, “the talons of Dharavi.”

See also the film Slumdog Millionaire.

Use the above resources and this chapter to develop economic, social, political and environmental arguments both for and against the demolition of Dharavi.