

# LAD CASE STUDY

## Land Acquisition for Industrialization in West Bengal: the Tata Nano Case

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# LAD

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## Introduction

Debasish Som is looking forward to his first major project since being appointed managing director of the West Bengal Industrial Development Corporation (WBIDC) in June 2006 (Appendix A). A middle-aged, bespectacled electronics engineer with a thin mustache, the serious Som, an amateur mathematician, took up his WBIDC post as he began his twenty-third year as a public servant in the Indian Administrative Service (IAS).<sup>i</sup> His successful career thus far in the IAS focused on a variety of development efforts in West Bengal in posts with progressively more responsibility, larger budgets, and more expansive mandates. Som's new appointment as managing director of the premier development agency of West Bengal's Commerce and Industries Department promises to be one of the most exciting and challenging of his career.

West Bengal is the fourth most populous state in India, with a population of over 80 million, located in the east along the borders with Bangladesh, Nepal, and Bhutan (Appendix B). It is the fourteenth largest state by area, its 88,752 sq. km. represent less than 3% of the total area of the country, making it the most densely populated state in India. The capital of West Bengal, Kolkata, is the third largest urban area in India, with over 4.5 million inhabitants.<sup>ii</sup> The state is considered middle-income in India, ranked ninth in both per capita income and per capita consumption. Despite the relative lack of attention paid to the West Bengal economy compared to other states, the state's GDP grew at an average rate of 6.75% between 1991 and 2001, driven in large part by agricultural growth. Recently, growth in the agricultural sector has slowed significantly, forcing the government of West Bengal to look for a new sector to drive the economy.

Buddhadev Bhattacharya, chief minister of West Bengal since 2000, understands the need to promote industry and information technology as an alternative to the stagnating agricultural sector. The leader of the state's Congress of India (Marxist) (CPI(M)) party and head of the Left Front coalition that has run West Bengal since 1977, the "incorruptible" Bhattacharya has a reputation for being a Communist leader open to economic reform. His government, spearheaded by Commerce and Industry Minister and Chairman of the WBIDC Nirupam Sen, has been aggressively attempting to lure investment into West Bengal.

The Left Front recently won reelection with a huge majority of legislative seats in the April 2006 West Bengal election. This was widely seen as an endorsement of the coalition's economic liberalization and pro-industrialization policies, represented by the alliance's 2006 slogan "Agriculture Our Foundation, Industry Our Future." Soon after, in

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*Michael Woolstlayer conducted interviews and prepared this case study under the supervision of Francis Fukuyama of Stanford University. This case was developed solely as a basis for class discussion. It is not intended to serve as a historical record, a source of primary data, or an illustration of effective or ineffective management.*

May 2006, Tata, one of India's largest businesses, chose West Bengal as the site for a coveted new plant to build the innovative Tata Nano affordable "People's Car" based largely on the package of incentives offered by the Left Front government. The Nano plant would bring an estimated 20,000 jobs directly or indirectly to the state and will be the crowning achievement of West Bengal's new business-friendly policies. Tata Motors Ltd (TML) has an aggressive timeline for the manufacture of the new vehicle, and any delays in procurement of the land or construction of the plant would threaten that production schedule.

Debasish Som's task, as Bhattacharya and Sen's new managing director of the WBIDC, is to acquire the roughly 1,000 acres of land required for the plant and supporting businesses at a site corporation selects in Singur, a town in the rural Hugli district near Kolkata. The government would then lease the land to Tata Motors. As he moves to acquire this land, Som must balance the interests of the Left Front government and Tata Motors on the one hand with the concerns of landowners, agricultural workers, and the opposition Trinamool Congress party on the other. Som has identified several options for acquiring the land and setting up the SEZ, each of which has both advantages and disadvantages.

First, the WBIDC could negotiate outright purchase of the 1,000 acres from the various smallholders on the site, a potentially challenging and time-consuming task given the fragmented nature of landownership in West Bengal. A second option is to expedite the acquisition of land by invoking the eminent domain clause of the Land Acquisition Act of 1894 and providing fair market compensation to landholders. The compulsory loss of land could lead to political problems as many in West Bengal still make their living off of small farms. The third option is to spend three months conducting an extensive survey of the affected land to ensure proper compensation for the bargadars (sharecropper-cultivators), as well as the deeded owners. Such an approach would be time-consuming and carry an up-front cost, but might preempt protest from cultivators who will lose their livelihood by guaranteeing them compensation. A final option is for the WBIDC to delegate Tata Motors to negotiate with landowners on the private market. This strategy could cause large delays, and might drive TML away from West Bengal should the landholders prove unwilling to sell.

Which strategy should Som pursue in order to satisfy the diverse stakeholders and successfully develop the site for the Tata Nano investment? Can he balance both the commercial and state-wide objectives with the interests of the rural landholders, agricultural workers, and the political opposition?

## **Background**

The Indian constitution, adopted in 1949, defined an Indian state that operates under a quasi-federal system in which power is divided between the central government and the states, but leaving all residual powers with the central government. Part XI of the constitution states the powers given to each level, enumerating them in the Union, State,

and Concurrent lists in the Seventh Schedule of the document. While the central government retains the right to legislate on any power in the State or Concurrent list with a 2/3 majority in favor in Parliament, in general the individual states control land rights, land revenue, and taxes and excise duty on agricultural and industrial land. Over the years the central government has played a major role in directing and promoting industrial development using both its enumerated and concurrent powers. Yet, particularly following the pro-market reforms in the early 1990s, state governments became increasingly responsible for attracting industry, with federal intervention reserved for the relatively poorest states, like Uttarkhand in the north. The growing importance of efforts to bring industrial development, with the jobs and revenues that accompany it, fueled competition between states to offer the most attractive incentives to industry. Often, if one of India's poorest states was identified as a potential industrial site, states with central government-backed incentive packages competed against one another.

The WBIDC formed in 1967 as an agency of the West Bengal Commerce and Industries Department. As competition between Indian states for industrial investment grew, states increasingly turned to these quasi-public agencies to help attract money, jobs, and the development that they represent. With the Indian economic liberalization of the early 1990s, West Bengal's ruling Left Front coalition, in power since 1977, released a new policy statement in 1994 in which it acknowledged the key role of the private sector in providing accelerated growth, evolving from its Marxist roots. It pursued several institutional changes to reflect the new policy, including reorganizing the WBIDC and appointing a senior CPI(M) leader as chairman of the Corporation with a relatively free hand to promote the state's new policies and plans for industrial development.

The WBIDC plays an active role in catalyzing investment in West Bengal and its core responsibilities have expanded since its establishment in 1967. First and foremost, the WBIDC has a mandate to secure and assist in the rapid establishment and growth of industries in the state. Responsibilities growing from this primary task include the promotion of important industrial sectors, providing financing to medium and large industrial schemes, forging links with both domestic and foreign entities, and designing new projects and assisting local entrepreneurs.

The Corporation has four primary paths to carry out these responsibilities: facilitation, financing, disbursing incentives, and structuring industrial parks. The WBIDC facilitates industrial projects in West Bengal by offering streamlined permitting and permissions, often through their "Single Window Facility" known officially as the "State Investment Facilitation Centre" (SFIC). Financing is provided by the Corporation, mostly focusing on mega loans for major infrastructure projects; the WBIDC disbursed a total of over Rs. 1.163 billion (\$21.5 million) in the 2005-2006 fiscal year. The WBIDC is also permitted to offer fiscal incentives, like interest subsidies or refunds of stamp duties, to attract development through its industrial promotion assistance role, most recently under the terms of the West Bengal Incentive Scheme of 2004. The Corporation takes a leading role in developing special economic zones (SEZs) and the physical infrastructure of industrial parks in the state.<sup>iii</sup>

Given the central part the WBIDC plays in industrial development in West Bengal, it quickly became a primary piece of the Government of West Bengal's strategy to lure Tata Motors to the state. By early 2006, TML was seriously considering four sites: Sanand in the state of Gujarat, Pantnagar in the state of Uttarakhand, and two locations in West Bengal, Singur and Kharagpur. Each location offered different advantages -- proximity to growing metropolitan areas (Sanand and Singur), inexpensive rural labor (Pantnagar), or existing Tata plants (Kharagpur)—and each site included significant incentive packages for TML (See Appendix C for a breakdown of incentives offered). In the case of relatively poor, rural Uttarakhand, the Indian central government underwrote the incentive package, while the state governments of Gujarat and West Bengal arranged their own bundles.<sup>iv</sup>

Mr. Som's WBIDC is responsible for arranging a number of the incentives. For example, the financing wing of the Corporation offered TML a \$40 million loan at 1% interest per year to assist with initial setup costs. Most importantly, the WBIDC is tasked with aiding TML in the acquisition of the land for the new Tata Nano plant. The largest challenge for any industrial project in India is procuring a contiguous plot of land sizeable enough to fulfill the needs of industry while minimizing the impact on existing residents. The numerous small landowners and the high percentage of fertile, arable land included in the proposed sites in West Bengal represent significant issues that the WBIDC must address as it assists in the acquisition of the 1,000 acres needed for the Nano plant.

## **Land Reform**

The proliferation of small landowners in West Bengal is the result of decades of land reform by the Left Front government. Upon taking office in 1977, the Left Front, led by the CPI(M), pursued reform as a central part of a wider, simultaneous push for decentralization and the empowerment of local administrative bodies known as panchayats.<sup>v</sup> This became a necessary aspect of successful land reform, as the panchayats were closely involved with tenant registration and the identification of surplus land for redistribution. The land reform enforced a positive feedback loop, democratizing the panchayats as their economic and social composition began to reflect the growing significance of small and marginal landholders along with bargadars, or landless workers.

By the 1970s, before reform, the Government of West Bengal had inherited complicated production relations that included absentee landlordism, extensive subtenancies, and a sizeable population of sharecropping cultivators who had no formal land rights. West Bengal became one of the few Indian states to pursue both tenancy reform and land redistribution in an effort to address these obstacles to agricultural development. The social, economic, and political objectives of the reforms were manifold. First, redistribution of assets and wealth in rural West Bengal would weaken the dominant position of landlords. Second, the Government of West Bengal expected that disrupting the prevailing patterns of land ownership would unleash previously constrained productive forces. Third, increasing the purchasing power of rural residents would create a market driving the development of rural industries, and trade and services commerce.

Fourth, planners saw the reforms as a basic condition for the expansion of literacy, education, and public health. Fifth, and most generally, the hope was that major land and tenancy reform would empower weaker segments of society, like women and the landless, and galvanize the working class more broadly.

A primary initiative known as “Operation Barga” consisted of the registration of sharecroppers who had worked the same piece of land for many years. The Land Reform Act of 1955 (and subsequent revisions) guaranteed permanent, inheritable rights to bargadars, including legal protection against eviction and a fair share of the produce cultivated. Faced with intimidation by landlords and costly legal proceedings to enforce their rights, many sharecropping tenants had not registered by 1978. “Operation Barga,” launched that year, achieved substantial success especially in the early stages. By the 1990s, the total number of recorded bargadars was 1.68 million, accounting for 20.2% of agricultural households, and the area covered amounted to 1.1 million acres, 8.2% of arable land in the state. However, by registering and formalizing the legal rights of so many sharecroppers, the government significantly increased the complexity of acquiring large tracts of land.<sup>vi</sup>

By 2006, the amount of land redistributed in West Bengal was greater than in any other state. Roughly 1.37 million acres of land had been acquired by the Government of West Bengal (18% of total land acquired in India), of which 1.04 million acres were distributed (20% of total land distributed in India), even though West Bengal accounts for only around 3.5% of the total arable land in India. With more than 2.65 million land title holders, or pattadars, the state also accounts for nearly half of the total beneficiaries of redistributive land reform across all of India. The process of land redistribution continued throughout the 1990s, and even into the early 2000s, when it had virtually disappeared from the agenda of all other state governments.

By most accounts, these institutional reforms have shifted the balance of economic and political power away from big landowners and state bureaucrats, towards local governments more responsive to middle farmers and poorer sections of rural society. Yet another consequence of the reforms is the fragmentation of landownership in West Bengal (Appendix E). By 2000-01, marginal operational holdings of less than 1 hectare (ha, 2.47 acres) accounted for 88.8% of total operational agricultural landholdings in the state, compared to 69.8% in all of India. The average holding size was 0.82 ha (2.02 acres) in the same 2000-01 census, down from 0.94 ha (2.32 acres) in 1980-81. As a result, developers interested in acquiring a large tract of land in West Bengal must consult with more individual landowners on average than in any other state in India, increasing the complexity and amount of time required for such acquisition.

In addition to the challenge of identifying and negotiating with numerous landholders, by the early 2000s the bargadar registry has become outdated. The last major registration push was more than a decade ago and in many instances, it is impossible to identify the actual cultivator of a particular plot—the individual or individuals who rely on the agricultural production of that plot for their livelihood. Although sharecroppers possess a 25% heritable right to the land—and thus a 25% claim to any sale or settlement—under

West Bengal law, they are ineligible for compensation if they are not registered. It is estimated that the majority in West Bengal are not registered by 2005.

### **Bhattacharya's Left Front**

The enthusiastic, progressive Left Front that pushed redistributive reforms during its first two terms in charge of West Bengal, during the late 1970s and 1980s, was a fading force in 2000 when Buddhadeb Bhattacharjee took over as the CPI(M) Chief Minister and leader of the Left Front coalition. Over twenty years in power had brought stagnation to the state, particularly in the rural areas. The average rural employment growth rate was 0.6% per year between 1993 and 2000, lower than in any other post-independence period and only one-third of the rate of rural population growth. The portion of the West Bengal population in absolute poverty (subsisting on less than \$1 per day) was 27% in 2000, slightly higher than the national average of 26%, but the state's population was disproportionately rural, accounting for 84% as opposed to 74% nationally. The situation seemed unlikely to improve as long as West Bengal's economy remained so dependent on agriculture. Bengali cultivators had struggled with lower crop prices since 1996, largely due to import competition, and production growth had slowed markedly in recent years (Appendix D). Bhattacharjee's main task on taking control was to bring economic opportunity to a stagnating state.<sup>vii</sup>

Upon taking office on the eve of the 2001 state assembly elections, Bhattacharjee presented a new vision for development. Attempting to break away from the perception of the Left Front as anti-private sector, the new administration aggressively pursued private investment, promised infrastructure improvements and administrative reforms, and sought to reform the agriculture sector and to renovate urban facilities to attract businesses. There was not enough time for these policies to overcome an anti-incumbency wave in the 2001 elections that saw the Left Front's majority dwindle to its lowest level since coming to power. Agricultural productivity had stagnated since the mid-1990s, while the local panchayats were seen as partisan, corrupt, and inefficient. The lack of industrial development became increasingly clear, and state revenue, based largely upon sales tax, dropped. Industrial policy foundered in the face of party and union conflict, while urban political support faded as public services deteriorated. Unemployment in 2000 in the state remained high--17% for rural and 10.6% for urban labor, compared to 7.2% and 7.7% nationally respectively.<sup>viii</sup>

Bhattacharjee, and Commerce and Industry Minister and Chairman of the WBIDC Nirupam Sen, redoubled efforts to attract industrial development to West Bengal following the 2001 election. While personally a dedicated Socialist, Bhattacharjee recognized the need to work with capitalists to bring investment to West Bengal. "We are surrounded on all sides by capitalism. You cannot practice socialism by insulating yourself from this environment," he acknowledged. That West Bengal was now open for business became the principal message of the Left Front administration, and the 2001-2006 term was dominated by efforts to affirm the new investor-friendly credentials of the state's new government.



This message manifested in three broad policy shifts. First, the Government of West Bengal streamlined the process of acquiring agricultural land for industrial and infrastructure projects. Second, Bhattacharjee's administration began to counter militant union activism, condemning "irresponsible" strikes and placing labor policy reforms on the agenda. Third, West Bengal's non-viable public sector units were aggressively restructured with the assistance of a grant from Great Britain's Department for International Development (DFID). In addition to these policy steps, Bhattacharjee cultivated relationships with leading Indian industrialists he thought might help develop West Bengal, including Ratan Tata of the Tata Group, Azim Premji of Wipro Limited, and Sanjiv Goenka of RP-Sanjiv Goenka Group. At the same time, beginning in 2003, the Left Front government pursued new market-oriented agricultural policies, like crop diversification promotion and incentivizing shifts from subsistence to commercial crops. These policies represent an attempt to reverse the sector's stagnation and consolidate previous achievements in the agricultural sector.

The chief minister successfully built a new electoral coalition that coalesced around his business-friendly "Brand Bhudda" image, capturing urban voters while maintaining the government's traditional rural constituency. While the Left Front had consistently showcased its spectacular success in agriculture, it reasoned in the 2006 election campaign that the benefits of land reforms undertaken in the 1970s and 1980s could only be sustained by transforming the state's predominantly small-landholder economy into an industrialized one, particularly given the reduced land-to-individual ratio. Industrial development and further land reform was the only way to secure the livelihood of future generations of farmers—especially small and marginal ones. The Left Front captured this logic for the 2006 elections in the catchphrase "Agriculture Our Foundation, Industry Our Future."<sup>ix</sup>

The Left Front won a landslide victory in the April and May 2006 state assembly elections; the coalition captured 235 of 294 seats, winning 50% of the vote. Indeed, the CPI(M) won 176 legislative seats—a clear majority—and almost 37% of the popular vote without its coalition partners. The electorate resoundingly supported the Left Front's platform, which included a vision of industrial development for West Bengal, but the real challenge was in delivering specific proposals that would satisfy the broad variety of supporters Bhattacharjee had mobilized. The Government of West Bengal decided to pursue auto industry investment as its flagship industrial development. They considered automobile manufacturing to be the "mother of all industries," given the large number of ancillary upstream producers it would attract, the huge second-and-third order industrial effects, and the sustained production potential. A major investment from the auto industry would, they argued, immediately generate more widespread industrial development in West Bengal. Once the government decided that an auto plant would be the "crown jewel of West Bengal industry," as a senior member of the Indian Administrative Service at the time suggested, "a sense of desperation to jumpstart this process dominated the Left Front's approach."

## **Tata Nano**

The Government of West Bengal's search for a major auto investment to lead the state's new industrial efforts coincided with the development of the Tata Nano, the "People's Car," by Tata Motors Ltd., India's largest passenger and commercial vehicle manufacturer. The company was part of the Tata Group, which collectively employed 202,000 people across six continents and reported revenues in 2006 of \$21.9 billion, equivalent to 2.8% of India's total gross domestic product. Ratan Tata, the Chairman of the Tata Group, conceived the Nano in 2003 as a Rs. 100,000 (\$2,500) vehicle targeted primarily at first-time car buyers in rural areas. A former West Bengal official described Tata's vision as "50% business, 50% social enterprise." By 2006, TML was eager to quickly inaugurate a new production site, consisting of a central plant with suppliers nearby to reduce cost.

The Nano will be a two-cylinder-engine, four-door compact car that meets safety requirements, including the rigorous Euro IV norms, as well as emission standards. The vehicle will have 20% more seating capacity and be almost half the price of its nearest competitors in India. Its design will use a number of innovative features to save space and weight, simplify the manufacturing process and reduce components. Some of these features include a plastic windshield panel to eliminate the need for screws, a single windshield wiper, and a rear-mounted engine that will not require a drive shaft. Meeting the ambitious production cost target of Rs. 65,000 (\$1,500) requires aggressive cost-cutting measures, including securing a significant incentive package to build the production facility and limiting input and transport costs.

Tata Motors estimates it needs 997 acres for the project; 645 acres will be used for the central plant, with 290 acres allocated for an adjacent vendor park to house the numerous ancillary production units in close proximity to reduce costs and 60 acres reserved by the state government for infrastructure improvements. The location must be located near major transportation links like a highway and rail and port facilities to limit transport costs. Additionally, TML has a strong preference for a site near a major urban area in order to draw on a deep pool of skilled workers and access to amenities that make jobs more appealing to them.

Such a facility would require initial investment of at least Rs. 10 billion (\$225 million) for the production plant, with another estimated Rs. 5 billion (\$110 million) invested by ancillary industries in the immediate area. Roughly 2,700 workers would be directly engaged at the Nano plant and the auxiliary units, but indirect employment would be much larger, at 13,000-15,000, with a total immediate creation of 16,000-18,000 jobs. Production workers in the modern car factory would generally be skilled, meaning that neither the main plant nor the ancillary units would likely hire many local residents. The skilled workforce would come from nearby urban areas or from other states. Locals could capture the vast majority of unskilled, "indirect" jobs in canteens and small shops, though these would be low paid.<sup>x</sup>

The impact of the production facility would reach beyond the value of the initial investment or the employment it will generate. Ravi Kant, managing director of Tata Motors, indicates that the project will "kick-start" re-industrialization in West Bengal. For example, he points out, "in Pune the whole landscape has changed within three years of setting up our plant. Uttaranchal has become the hub of the automobile industry within 10 months of our setting up a unit there."<sup>xi</sup> This cascading effect of investment in the automobile industry was seen throughout the 1990s in Chennai, Noida, and Pune.

Four Indian states expressed interest in hosting the new production facility, but Tata Motors narrowed to two potential options by early 2006 after seeing the incentive packages each offered (Appendix C). Pantnagar, in the state of Uttarakhand, benefited from a scheme introduced by the federal government in 1999—and extended to Uttarakhand in 2003—to attract investment to the industrially less developed north-eastern Indian states. The fiscal concessions include: a 100% excise duty exemption for the first 10 years of commercial production, full exemption from income tax for the first five years, and a tax rebate of 30% for companies for the following five years. In addition to the fiscal incentives, Uttarakhand would also acquire the needed land using eminent domain to expedite the process and state officials promised to negotiate a favorable lease agreement. Since only the central government could offer excise duty exemptions, competing against states that fell under the scheme requires creative solutions from other states.<sup>xii</sup>

Tata Motors made it clear to Chief Minister Bhattacharya and Debasish Som that West Bengal would have to match or beat the fiscal and land incentives to win the plant. Toward that end, the WBIDC offered a significant bundle of inducements. The 645 acres of land for Tata's main production facility would incur no upfront payment. The annual lease rent was fixed at Rs. 10 million (\$220,000) for the first five years, increasing by 25% every five years from the 6th to the 30th year, rising 30% every 10 years from the 31st to the 60th year, and holding at Rs. 200 million (\$4.5 million) from the 61st to the 90th year. To match excise relief the central government has offered, the state-controlled VAT dues would be refunded as a soft loan at 0.1% interest.<sup>xiii</sup>

Additionally, the WBIDC will give TML a soft loan of Rs. 2 billion (\$45 million) at a 1% interest rate. The ancillary units will be built on 290 acres, paying an unspecified lump sum and an annual rent of Rs. 8,000 (\$180) per acre. The state government also promises to provide electricity for the project at Rs 3.00 (\$0.07) per kwh. In case of a more than Rs 0.25 per kwh increase in tariff in every block of five years, the government will provide relief through additional compensation to neutralize such additional increase. The current rate for other users in the state is reported to be Rs 4.15 (\$0.09). In the long run, beginning after the first five years, the Tata project would increase state revenues by an estimated Rs. 4-5 billion (\$90-\$112 million) per year.<sup>xiv</sup>

West Bengal's offer tipped the balance of the competition for the Nano factory in its favor. Tata Group Chairman Ratan Tata was reportedly the first person to congratulate Bhattacharya on the Left Front's sweeping victory in the 2006 assembly elections. Soon thereafter, on May 18, 2006, Tata Motors unveiled its plans to build the first Nano factory

in Singur, West Bengal. Ratan Tata announced, “We have come to believe that West Bengal is the most investor-friendly state in the country [...] The investment is a reflection that the Tata Group has faith in the investment climate and the government of Bengal.”<sup>xv</sup> With the deal signed and a Tata Motors eager to begin production, it now falls upon Debasish Som and the West Bengal Industrial Development Corporation to acquire the necessary land as quickly as possible.

## **Land Acquisition Options**

Debasish Som, as WBIDC’s managing director, must now pick the best method of acquiring the 997 acres of land in Singur for the Tata Nano production facility. Initial estimates suggest that the 997 acres will require compensating between 17,000 and 21,000 individuals. Decades of land reform in West Bengal, in addition to shrinking average plot sizes, resulted in the need to consult not just direct landholders, but officially recorded tenants and anyone legally entitled to some portion of the plot’s output as well. By contrast, the average number of landowners in 1,000 acres in Gujarat is 20-30. On the one hand, speed is crucial for Tata Motors, which is eager to break ground and begin production, and therefore for the Government of West Bengal as well which has made the car plant the keystone of its new industrial development strategy. On the other hand, the land must be acquired from a large number of rural landholders who have traditionally made up the Left Front’s base of support and who must accept compensation for the project to be successful. Although Som himself is an apolitical civil servant, the opposition Trinamool Congress party will be closely scrutinizing the process and will use any shortcomings to derail the Tata project for political gain.

Som has four options. First, the WBIDC could negotiate outright purchase of the 1,000 acres from the various smallholders, a potentially challenging and time-consuming task given the fragmented nature of landownership in West Bengal. Extensive press coverage of a recent state land purchase erroneously suggested that West Bengal paid as high as Rs. 5.4 million (\$122,000) per acre, but this misinformation has led landholders to expect well-above the current market rate of Rs. 45,000 (\$10,000) per acre in Singur. As a result, while the strategy of negotiating with individual landowners would shield the WBIDC and Government of West Bengal from accusations of heavy-handedness, and ensure that rural landholders feel empowered in the process, it would also significantly increase the time and cost of the land because some landholders would likely hold out for well-above market prices.

Second, Som could expedite land acquisition by invoking the eminent domain clause of the Land Acquisition Act of 1894 and providing fair market compensation to landholders. The figure suggested by the WBIDC is three times market value for landholders-- with 25% going to a landless laborer registered on the plot. Such an acquisition would be the quickest option and therefore most appealing to Tata Motors, and would allow the Government of West Bengal to control the amount paid for the land. The 1894 Act, which has a fraught colonial legacy, states that the eminent domain clause may only be invoked for “public purposes,” not for private enterprise. The use of that power for

industrial development occupies a controversial gray area in Indian society, and its exercise would thrust the WBIDC into that ongoing debate. The compulsory loss of land could lead to additional political problems as many in West Bengal still make their living off of small farms. Compensation can legally only be paid to those registered as the landowners or sharecropper-cultivators, so the outdated, incomplete nature of the land registries might cause some who are owed payment to be overlooked.

The third option is to spend an estimated three months conducting an extensive survey of the affected land prior to the invocation of eminent domain to ensure proper compensation for the bargadars, sharecropper-cultivators, as well as the deeded owners. This strategy would fix the shortcomings of the current land registry, which would make certain that most of those entitled to payment under West Bengal law receive it. The approach would delay groundbreaking on Tata Motors the production facility by at least three months and could vastly increase the amount of compensation the Government of West Bengal is required to pay to acquire the land. The potential for fraud in a rushed registration drive is also a concern, particularly given the lack of formal documentation for many of these claims.

A final option is for the WBIDC to leave land acquisition solely up to Tata Motors to negotiate with landowners on the private market. Such an approach would free the WBIDC and the Government of West Bengal from the burden of acquiring the land, and insulate them from accusations of heavy-handedness and appropriating the livelihood of rural landholders and cultivators. Yet this strategy would almost inevitably cause large delays as the company negotiates with thousands of individuals. Since the other states vying for the Tata Nano factory have offered to acquire land for the plant through eminent domain, a decision by West Bengal to force Tata Motors to negotiate on its own might drive the company away from West Bengal should landholders prove unwilling to sell.

Which option should Debasish Som pursue?

## Notes

<sup>i</sup> The Indian Administrative Service is the primary administrative civil service of the Government of India.

<sup>ii</sup> The 2001 Census of India states the population of West Bengal as 80,176,197 and the population of the Kolkata Urban Area as 4,572,876.

<sup>iii</sup> West Bengal Industrial Development Corporation. (2007). *Annual Report, 2006-2007*. Kolkata, WBIDC, pp.3-4.

<sup>iv</sup> Jha, S. and D. Schiffrin. (2012). "Managing Local Political Risk: Parking the Tata Nano (A)," Stanford Graduate School of Business, Case No. P-78(A), March 18, p. 9.

<sup>v</sup> The three levels of local administration consist of gram panchayat at the village level, the panchayat samiti at the block level and the zilla parishad at the district level. Activities within their jurisdiction include: the planning of developmental and infrastructural works, the appointment of staff and extension workers, the execution of centrally-sponsored poverty alleviation programs and the implementation of state initiated reform programs, such as land reforms and bargadar registration.

<sup>vi</sup> Development and Planning Department. (2004). *West Bengal Human Development Report*. Kolkata, Government of West Bengal, pp. 30-31 and 33-35.

<sup>vii</sup> Ibid., pp. 107-109.

<sup>viii</sup> Planning Commission. (2001). "Tenth Five-Year Plan (2002-07): Volume I." New Delhi: Government of India, p. 165.

<sup>ix</sup> Basu, P. P. (2007). "'Brand Buddha' in India's West Bengal: The Left Reinvents Itself." *Asian Survey* 47, No. 2: 292-296.

<sup>x</sup> Coughlan, S. (2010). "Tata Nano: Dilemmas in Sustainable Development." International Institute for Management Development, IMD-3-1947, p. 6.

<sup>xi</sup> Chattopadhyay, S. S. (2006). "Starting Trouble." *Frontline* 23, No. 25 (December 16): 2.

<sup>xii</sup> Department of Industrial Policy & Promotion. (2001). "Office Memorandum: New Industrial Policy and other concessions for the state of Uttaranchal and the state of Himachal Pradesh." Government of India, Ministry of Commerce and Industry, No.1(10)/2001-NER, pp. 1-3.

<sup>xiii</sup> West Bengal Industrial Development Corporation. (2006). "Agreement between Tata Motors Ltd., Government of West Bengal and WBIDC." WBIDC.

<sup>xiv</sup> Ibid.

<sup>xv</sup> Alfaro, L., Iyer, L., and Arora, N. (2012). "Tata Motors in Singur: Public Purpose and Private Property (B)," HBS No. 709-029, Boston: Harvard Business School Publishing, p. 2.

## APPENDIX A

### WBIDC Managing Director Debasish Som



Source: Debasish Som

# APPENDIX B

## Map of India and West Bengal



Source: CIA World Factbook. Author's Edit.



## APPENDIX C

### Incentive Packages By State

	<b>West Bengal</b>	<b>Uttarakhand</b>	<b>Gujarat</b>
<b>Land Acquisition</b>	Eminent Domain	Eminent Domain	Eminent Domain
<b>Lease</b>	<p>90-year lease on 645 acres for central production plant</p> <ul style="list-style-type: none"> <li>- Rs. 10 million (\$220,000) for first 5 years.</li> <li>- 25% increase every 5 years until year 30</li> </ul> <p>90-year lease on 290 acres for vendor park</p> <ul style="list-style-type: none"> <li>- Rs. 8,000 (\$180) acre/year first 45 years</li> <li>- Rs. 16,000 (\$360) after</li> </ul> <p>60 acres reserved for state government infrastructure</p>	Negotiable	Negotiable
<b>Loan</b>	\$40 million at 1% interest	N/A	Negotiable
<b>Other Benefits</b>	Reduced electricity cost: Rs. 3 (\$0.07) per kwh	Zero excise duty for the first 10 years.	Negotiable
	VAT and CST on sales of the Nano to Tata in the form of a 0.1% interest loan until West Bengal matches Uttarkhand's incentives in net present value. Repayable in annual installments from year 31.	<ul style="list-style-type: none"> <li>- Zero income tax for first 5 years of production, 30% rate for next 5 years.</li> <li>- Capital investment subsidy of 15%, with cap of Rs. 20 lakh (\$45,000).</li> <li>- Concession central sales tax at 1% (normally 4%).</li> <li>- Exemption from entry tax on plants and machinery.</li> <li>- Stamp duty concession on Specialized Commodity Park.</li> <li>- Free IT bandwidth (2mbps) for one year.</li> </ul>	

## APPENDIX D

### Growth Rate of Food Grain Production in West Bengal

Period	Exponential Rate of Growth in Food Grain Production, Three-Year Moving Average (%)
1970-71 to 1980-81	1.38
1980-81 to 1990-91	5.15
1990-91 to 1999-2000	2.39

Source: Bandyopadhyay (2003)

## APPENDIX E

### Estimated Number and Area of Operational Holdings by Size Class in West Bengal

Size	Class	1980-81	1990-91	2000-01
<b>Marginal (&lt;1 ha)</b>	No. of Holdings	4096001	4639055	5462089
	Area of Holdings (Ha)	1619657	2064440	2758843
<b>Small (1-2 ha)</b>	No. of Holdings	1148936	1107006	1009328
	Area of Holdings (Ha)	1733512	1694000	1606686
<b>Semi-Medium (2-4 ha)</b>	No. of Holdings	519445	457150	282992
	Area of Holdings (Ha)	1403246	1269052	783773
<b>Medium (4-10 ha)</b>	No. of Holdings	111859	79284	34797
	Area of Holdings (Ha)	594883	425530	178298
<b>Large (10+ ha)</b>	No. of Holdings	1408	1291	785
	Area of Holdings (Ha)	203484	202668	218976
<b>All Sizes</b>	No. of Holdings	5877649	6283786	6789991
	Area of Holdings (Ha)	5554782	5655690	5546576
<b>Average Size (ha)</b>		0.94	0.90	0.82

Source: Department of Agriculture, Government of West Bengal. 1 hectare (ha) = 2.47 acres.

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