

Clean up land records: Let the financial system spearhead the change

The first step in this direction would be to start with the land that has already been collateralised in the formal financial system



Real [reforms](#) work when incentives of multiple stakeholders are naturally aligned. Animal spirits don't get unleashed when animals are not allowed to follow their instincts. The [reforms](#) of the 1990s got that right and we strongly believe that the recent announcement to allow farmers to do what is best for them will also work for the same reason. They work because it is in the best interest of most of the participants to make it work.

As millions of small businesses and households plan for the post-Covid world, many are likely to lean on the only asset that they own — land — to secure themselves financially. In many respects, issues in land markets mirror those that we see in the agriculture sector. For one, both need states to resolve them under our Constitution. The states neither have the same incentives nor have similar resources to address these issues. The resultant hairball of policies and procedures have slowed our growth as one nation, though other factors like capital and labour have remained unshackled for a few decades now. The main stakeholder, be it a farmer or a landowner, is often left to face the consequences of these distortions. It was, therefore, encouraging to finally see the government act to maximise the interests of the key stakeholder.

The current state of our land record keeping has not kept with changes in time and in our aspirations for the economy. But this has not kept us from dreaming about block chain and other new age tools that advanced countries use to manage their land markets.

Poor records add cost and risk to lenders who want to lend against land. Credit is, therefore, rationed and conservatively provided as a result. Is there a way to make lenders lend more against the same piece of land? Can we now push changes that are long pending?

We present a simple approach to clean up land records quickly. There is a lot of land that has already been collateralised in the formal financial system. There is no clear estimate of the amount of land that has gone through the financial system, but we believe it is likely to be around 30 to 40 per cent of the monetisable land. This means that we already have a large part of our land bank for which some due diligence has already been done by banks and [NBFCs](#). Can we start with these for our exercise? Can we incentivise the formal financial institutions to create a land register document with all the relevant information including the strength of the title?

What we are proposing is a land register that is to be created and used by financial institutions for their own purpose. There are two close analogies to our proposal — dematerialisation of stock records and creation of borrower credit profiles. Both were pushed by the government to ensure that our record-keeping does not come in the way of our economic growth. While the former was easier as only a few institutions were involved, the latter was a classic case of incentivising a broad array of financial institutions to seek such a record for reducing their risk. Dematerialisation has helped take risk off the table for owners and lenders (against shares) alike. Similarly, despite not being mandatory, credit history is now a pre-requisite for anyone considering borrowing from the formal financial system. It is self-sustaining as banks can now be more objective about who to give credit to and borrowers can shop for a lower interest rate to maximise their superior creditworthiness.

Since our proposal requires banks to use information they already possess, it should be relatively quick to get started. Our land register is similar to a securitised receipt of land and its ownership financial institutions would be comfortable to lend against. Like depositories in the stock market, there could be incentives for independent players to update these records for a fee. The updating will be initiated by borrowers at their expense since without updating they are less likely to get credit.

There is minimal state intervention needed since it does not infringe the sovereignty of the government over the land records. The current process of registering liens or mortgages could continue though their need would be reduced if such information is already available in this new record. The use of technology like block chain to ensure integrity through distributed responsibility becomes easier in this model as the records are clean and standardised to suit the purpose of the financial system. With lower risk, banks are likely to be less conservative in their loan-to-value ratios and could lower their interest rates as well.

In essence, what we are proposing is to leverage land records that are already relatively clean to build a system around, rather than force a top-down approach to clean up all land records as has been the case until now. By incentivising the financial system to spearhead this transition and the borrowers to seek it on their own, we could avoid problems that have plagued such land [reforms](#) before.

(Concluded. The [first part](#) appeared on Wednesday)

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