

Turning the poor's assets into capital

The Indian judiciary is crumbling under the weight of pending cases. More than 28 million cases are pending in the country's district courts. Of these, more than 7.5 million are civil cases, and Bengaluru-based NGO Daksh's data shows that more than 66% of the civil cases are related to land or property. Not only is the judiciary overburdened, the poor litigants are also losing Rs1,300 on average per day of court hearing in litigation costs and foregone business. In this context, the Andhra Pradesh government's steps to use blockchain technology for land titling are a laudable development.

Blockchain technology is at the forefront of a technological shift called disintermediation; the removal of intermediaries in exchange processes that enables people to transact in a peer-to-peer fashion based on the trust provided by blockchain.

At present, land ownership data is stored with the government in centralized ledgers (records). This means that the data can be accessed and modified only by the government. This is a problem because if this data is erroneously entered, lost or forged, the ledger will no longer represent the true ownership of assets. Blockchain allows the government to maintain a public ledger of asset-ownership in a distributed fashion. The data is stored on a network of devices and there is no central point of failure. It ensures trust by being transparent—it is visible for everyone to verify. At the same time, it ensures privacy for the owner by ensuring that the ownership of the asset only changes hands after authorization.

At present in India, trading an asset requires an enormous effort just to determine the basics of the transaction: Does the seller own the real estate and have the right to transfer it? Will the new owner be accepted as such by those who enforce property rights? What are the effective means to exclude other claimants? Such questions are difficult to answer. For most goods, there is no place where the answers are reliably fixed. That is why the sale or lease of a house may involve lengthy and cumbersome procedures of approval involving all the neighbours. This is often the only way to verify that the owner truly owns the house and there are no other claims on it. Blockchain has the potential to change this by representing what is economically meaningful about any asset—size, location, use-restrictions, etc.—linking it to the owner unambiguously, and tracking all future exchanges.

Secure land ownership will prove immensely beneficial for India's poor. The prosperity of Western nations can be traced to the security provided to property by the formal legal system. The poor in India do own things, but they don't have a way to represent their property and create capital. They have houses but not titles; crops but not deeds; businesses but not statutes of incorporation. They produce all kinds of things—from clothing and footwear to leather bags and wrist watches. But due to missing documents of ownership, they are pushed into the unregulated sector of the economy—unable to access credit and public utilities like water and power. These enterprises of the poor are very much like corporations that cannot issue shares or bonds to obtain finance and investment. In the words of Peruvian economist Hernando de Soto, without representations their assets are “dead capital”.

With a trustworthy asset ownership system, millions of people will move out of the anonymous mass of citizens and become individuals with property interests. By intractably linking themselves to a property, they will become identifiable and have to forfeit their anonymity. Thus, people who use goods and services and don't pay for them will be identified and charged interest penalties; contract violations will be traced; and legal infractions can be more easily prosecuted. On the other hand, they will be able to save and invest, avail of credit and maintain credit histories, and benefit from lower insurance premiums. Buildings are always the terminals of public utilities like power,

water, broadband service, etc. But legal property transforms them into accountable and responsible terminals. The threat of forfeiture will discipline households and erstwhile unserved citizens will be treated like responsible members of society whose engagement is backed by a pledge of property.

Blockchain has the potential to end the days of large-scale property-related litigation; it will free the assets of the poorest Indians to create capital and enter the formal economy. However, recognizing the present owners of the lands is a huge task in itself. In 2013, Action Research in Community Health and Development (ARCH), Liberty Institute and some other NGOs helped tribal farmers in Gujarat use GPS technology to mark their lands on government maps and secure their property. Something similar must be done for the vast swathes of India's countryside. There is enormous value locked in the assets of India's poor. One can hope that the government will take swift action given the potential gains for them.

Do you think more Indian states should use blockchain for giving land titles to the poor? Tell us at views@livemint.com

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