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# Tracking Reforms in Land Leasing and Change in Land Use: Insights From Gujarat and Karnataka

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## + CONTENTS

Summary	1
Introduction	2
Land Leasing	5
Change in Land Use	13
Conclusion	21
Acknowledgments	25
About the Author	25
Notes	26



## Summary

India is primarily an agrarian society. More than 60 percent of its population is dependent on agriculture and allied services and dwells in rural areas. In the past couple of decades, India has attempted to shift away from its rural-agrarian base toward an urban-industrialized economy. In this journey, it encountered many challenges, but none remain as severe and persistent as the ones related to the assignment and balancing of land and property rights. Land governance in India remains historically complex, politically sensitive, and economically inefficient. In recent times, state governments have attempted proactive measures to reform the sector and bring greater efficiency to land markets. Despite the exigency of these reforms, issues surrounding equity, abuse of power, and nexus among powerbrokers remain central and require thorough analysis.

To unpack the fuller effects of the recent reforms, this paper aims to examine key reforms in land leasing and change in land use sub-sectors initiated by Gujarat and Karnataka states. The paper takes a comparative assessment approach to decipher the nuances and complexities of land governances in the two states. Given that land has deep historical connections, this paper briefly delves into the historical evolution of land leasing and change in land use regulation in the two states. The historical analysis highlights the political economy context of each sector and is followed by an in-depth review of the recent reforms. The paper covers reforms effectuated through legislative, executive, and judiciary actions. This approach allows a comprehensive tracking of different mechanisms at play.

The paper brings out some interesting findings. In both the states, the change in land use sub-sector was able to reform more frequently than the land leasing sub-sector. Despite both states relying upon all three branches of government to initiate reforms, executive action was used most frequently. On occasion, the judiciary played a critical role, especially when lower branches passed judgments that provided windfall relaxation to the protective regulation. Further, the paper finds that most reforms were not structural in nature; they were merely attempts to ease the restrictions on the transfer of agricultural land. In a complete departure from past objectives, recent reforms attempted to dilute the protective framework of land leasing and change in land use regulation. It is understandable that socioeconomic and political realities have shifted and the archaic regulation may not serve its intended purpose. However, the recent reforms have failed to show a concrete new direction. Instead, they largely focused on allowing a greater transfer of land resources to industries, pushing toward more capital-intensive agriculture, and promoting digitalization of land-related governance and public service delivery.

Despite the desperate attempts of the state government to change the face of land governance, it is disappointing to see old structural problems persist. The nexus among the political class, bureaucracy,

and private corporations continue, information asymmetry remains high, and access to accurate land records is still a privilege. The governments must fix structural bottlenecks to achieve long-term sustainable utilization of land resources. All in all, federal and state governments need to improve their political willingness and administrative capacity to reform the land sector—without which all other efforts will fail to deliver.

## Introduction

In India, despite 60 percent of the total population being directly dependent on land for their livelihoods, land governance remains one of the most complex, controversial, and underexamined public policy issues.<sup>1</sup> Land is a scarce resource in India. India supports roughly 18 percent of the world's population but has access to only about 2.5 percent of the global landmass, having one of the lowest levels of per-capita land availability across the world.<sup>2</sup> As India progressed from a low-income economy to a lower-middle-income economy according to World Bank classifications, the competing demand for land resources—whether to grow food, support livelihoods, or develop industry and infrastructure—has changed over time.<sup>3</sup> Consequently, balancing the supply of land with the changing composition of its relative demand has remained a persistent challenge for the successive governments. This paper seeks to examine these challenges in detail and evaluate the regulatory response of the government in mitigating these challenges.

Under the Indian constitutional scheme, jurisdiction on a majority of land-related governance matters rests with the state governments.<sup>4</sup> As a result, pursuant to their local needs and unique historical characteristics, provinces and states devised their own regulations to manage land resources. Further, a large number of land-related reforms since the adoption of the constitution in 1950 were advocated by state governments in consultation with the union government and the Planning Commission.<sup>5</sup> These actions have resulted in a widely varying regulatory framework across different states.<sup>6</sup> While this constitutional scheme—where land is primarily a state subject—has many merits, it has also given rise to some undesirable pathologies in the land governance framework. Land governance has become highly susceptible to the capacity and willingness of state governments. In a country like India, where regional inequalities are extreme, reforms in land administration have had mixed responses.<sup>7</sup> Some states have done better than others, but land administration remains mostly archaic, tangled in bureaucratic red tape, and suffers from poor allocation of fiscal resources.<sup>8</sup>

Currently, India is at a point of inflection in its economic growth trajectory. It witnessed a long period of high growth at the start of the new millennium, but the growth rate has slowed down in the last half decade or so.<sup>9</sup> Last year, India's prime minister declared a target to hit a gross domestic

product (GDP) mark of \$5 trillion within the next decade.<sup>10</sup> In achieving this ambitious target, which seems most unlikely owing to the economic shock from the coronavirus pandemic, India is heavily relying on a development model that aims to rapidly transform a largely rural agrarian economy into an urban industrial powerhouse.<sup>11</sup> The role of land as a factor of production is critical to this transformation because it is central to hosts of economic activities—be it for primary purposes, such as agriculture (food security) or mining of raw material, or for secondary purposes, such as the building of a factory compound, development of supporting infrastructure for urbanization, or expansion of nationwide connectivity, among others. Hence, efficient utilization of land resources holds the key to unlocking the next phase of India's economic growth.

Effective transfer of land resources from their existing uses to future uses necessitates large-scale reappropriation of property rights of landholders (both owners and possessors). However, the rapid speed and massive scale at which the transition of the Indian economy is envisioned by the political class, without sufficient reforms in the existing capabilities of land administration, raises the risk of a rise in land-related legal and extralegal conflicts.<sup>12</sup> For that reason, India's aspiration of transitioning toward a high-income economy from its vast rural base largely hinges on how effectively it embraces structural reforms that support not only an effective but also an inclusive framework of land governance. In this journey, the role of state governments becomes central as they must prepare to adopt institutional measures that promote both their willingness and capacity to support optimal administration of land resources in their respective regions.

As land is a state subject under the Indian Constitution, it is important to assess the direction in which the state governments are instituting reforms. This paper aims to review and provide a commentary on the emerging institutional framework for land governance in the states of Gujarat and Karnataka in India. This paper focuses on reforms in two key areas: (1) land leasing (tenancy) and (2) change in land use.<sup>13</sup> Both of these subjects fall under the purview of state governments, and regulations in both hold the key to rapid improvements in land utilization. These two subject matters have been selected because, first, Indian agriculture is undergoing a structural change (owing to a capital-intensive model of production and a greater infusion of technology and private investments), and second, India is rapidly urbanizing—bringing more and more rural land under urban areas, causing massive changes in land use patterns and the political economy of rural land markets.<sup>14</sup>

The states of Gujarat and Karnataka are considered for this study primarily because of their similarly situated demographic and economic indicators. The states have almost comparable levels of total population, geographical area, and ratio of rural-urban population, making them ideal cases for this paper (see table 1).<sup>15</sup> Further, both are among the better-governed states, and their scores across governance indicators are comparable: Karnataka (score: 5.1 out of 10, rank: 3), Gujarat (score: 5.04 out of 10, rank: 6).<sup>16</sup> In addition to these factors, both states are among the top contributors to

TABLE 1

**Key Demographic Indicators of Karnataka and Gujarat**

Metrics	Karnataka	Gujarat
Population (in millions)	61.1	60.4
Urban population (%)	38.7	42.6
Geographical area (in sq. km)	191,791	196,244
Literacy (%)	75.36	78.03

**SOURCE:** Census of India 2011, <https://www.census2011.co.in/census/state/gujarat.html>; <https://www.census2011.co.in/census/state/karnataka.html>.

Indian GDP and have an advanced industrial and urban outlook. Further, both states have recently adopted some interesting land-related reforms, making them attractive for the analysis in this paper.<sup>17</sup>

This paper aims to study the challenges faced by these state governments in maintaining the equilibrium of demand and supply in the land markets. As the relative demand for use of land resources across different activities is rapidly changing, it is becoming increasingly challenging for state governments to keep up with the supply. In response, state governments are instituting regulatory changes that are reforming land governance. This paper aims to evaluate both the responses of two state governments in mitigating these challenges and their possible implications. This analysis hopes to shed light on why new regulatory changes were adopted, what problem they were trying to solve, and whether they were successful in achieving their goals or whether they require further modifications to nudge them toward their desired goals.

This paper is further divided into three sections. The first section deals with reforms in land leasing regulation followed by an analysis of reforms with regard to change in land use. These first two sections will briefly outline the history of the evolution of the regulatory framework for (1) land leasing, and (2) change in land use, respectively. The purpose of the historical account is to shed light on the existing variation in the regulatory framework across the subject matters in the two states. The final section discusses recent reforms instituted (through the legislative, executive, or judicial process) for each state, focusing on whether there are any major structural departures in the regulatory framework with respect to their historical trajectories.

The last section concludes by discussing similarities and differences in the approaches taken by the two states in instituting reforms. Further, this section also deliberates on some key lessons from this study. In the past, many reform agendas have failed either at the planning stage or at the

implementation stage. A nuanced examination of reforms in the two states will help draw interesting insights on the factors affecting the overall success or failure of a reform agenda. The insights from this paper can potentially become important learnings for other Indian state governments that are keen on instituting similar reforms in the future.

## Land Leasing

Historically, ownership rights over land resources in India had been severely limited.<sup>18</sup> Different regions followed different proprietorship and revenue collection models.<sup>19</sup> On the whole, a few people flourished at the cost of many, characterizing the unjust nature of these systems.<sup>20</sup> India inherited such a flawed framework of land rights upon its independence. The monopolistic control of a few over land resources seemed untenable in an independent India. Consequently, in the decades following independence in 1947, most provinces and states adopted land reforms to reduce the gross inequity in the distribution and management of land resources.<sup>21</sup>

Among the many land reform measures initiated, tenancy reforms had the potential for the greatest positive impact on the living conditions of the farming community, since a large number of them were tenants.<sup>22</sup> Broadly, the process of land leasing (tenancy) can be understood as an agreement between the lessor and the lessee of the land where the lessee acquires the right to use the land from the lessor in return for a payment of a pre-agreed rent. After independence, most states either streamlined their existing laws or enacted new laws to regulate different aspects of land leasing.<sup>23</sup> Nevertheless, there remained significant variations in the regulatory framework of land leasing among states.

Tenancy reforms aimed to provide security of tenure and safeguard the vulnerable communities (Scheduled Tribes and Scheduled Castes) from being unfairly treated by the landholding community. To achieve this goal, tenancy laws imposed strong to severe restrictions on various aspects of land leasing. Restrictions varied regarding the class of people who were permitted to lease out their land, the procedure, and limitations on the resumption of the leased-out land; the incidence of the burden of acquisition of ownership rights; and the rate and mode of interest permissible, among others.<sup>24</sup> However, the restrictive nature of land leasing regulations proved counterproductive.<sup>25</sup> Ironically, the land leasing regulation created such skewed incentives that it led to further informalization of the rural economy.<sup>26</sup>

The tenants faced strict scrutiny over formal leasing as landlords feared the loss of ownership rights through the application of the principle of adverse possession.<sup>27</sup> The concept of deemed ownership is common in most of the agricultural land leasing laws. Under the provisions of deemed ownership, near-ownership rights are conferred on persons who are agricultural tenants as of a particular date.

This provision, coupled with provisions that restricted leasing out agricultural land, created extremely adverse incentives against leasing out land and the formalization of tenancies. In fact, a 2016 survey by the National Bank for Agricultural and Rural Development found that only 2 percent of the surveyed households reported to have leased out land, while about 12 percent of the households reported to have leased in land.<sup>28</sup>

An ideal land leasing framework should incentivize formal land leasing while protecting the interests of both the landowners and the tenants. Speedy contract enforcement at the least cost with respect to finance and time is a must for the efficient functioning of land leasing markets. Given the wide prevalence of absentee landlordism in India, vesting of ownership rights through the principle of adverse possession is a grave concern for landowners, and the law must have relevant checks and balances to ensure its minimal misuse by the tenant class.<sup>29</sup>

Land leasing remained an idle subject for a long time, but with a push for a capital-intensive model of agriculture, increasing economic growth, changes in the rural economy, and urbanization, land leasing has gained renewed prominence in the land governance literature.<sup>30</sup> The following sections review the existing and new frameworks of land leasing in Gujarat and Karnataka to reflect on the reform measures undertaken by these states.

### A Brief Overview of the Law and Practice of Land Leasing in Gujarat

In independent India, until the creation of the current-day state of Gujarat on May 1, 1960, by an act of India's Parliament, Gujarat was composed of three major units: Bombay, Saurashtra, and Kutch.<sup>31</sup> Each of these regions had its own set of legislation governing the proprietary relationship between landlords and tenants.<sup>32</sup> Upon consolidation and streamlining of the existing tenancy legislation, the Gujarat (Bombay) Tenancy and Agricultural Land Act, 1948; the Saurashtra Gharkhed, Tenancy Settlement and Agricultural Lands Ordinance, 1949; and the Gujarat Tenancy and Agricultural Land (Vidarbha Region and Kutch Areas) Act, 1958 became the primary acts governing land leasing in Gujarat.<sup>33</sup> Under the provisions of this legislation, land leasing was not explicitly banned, but there remained severe restrictions.<sup>34</sup>

By virtue of the Gujarat (Bombay) Tenancy and Agricultural Land Act, 1948, all existing tenants as of April 1, 1957, were deemed owners of the land cultivated by them, and a tenant had the right to purchase the tenanted land within one year of the creation of tenancy.<sup>35</sup> Additionally, the legislation provided for special protection of rights—in the form of strict to almost irrevocable tenancy rights—to marginalized communities such as Scheduled Castes or Scheduled Tribes.<sup>36</sup> Most importantly, Section 63 of the stated act barred transfer (including sale, gift, exchange, or lease) of agricultural land to nonagriculturists.<sup>37</sup>

Strict restrictions on land leasing ended up freezing the formal land leasing market. The skewed incentive structure led to the proliferation of a shadow land leasing market causing severe disadvantages to both landlords and tenants. As per the seventieth round of the National Sample Survey (NSS), in 2012–2013, only around 5.6 percent of Gujarat’s land area is under formal tenancy, which is estimated to be one-third to one-fourth of the actual extent of total leasing.<sup>38</sup> Landlords fearing loss of ownership rights remained invested in land despite their ability to look for nonfarm employment opportunities.<sup>39</sup> Tenants who actually tilled the land remained bereft of formal credit lines, crop insurance, and agricultural supply chains, making them susceptible to ill treatment by local moneylenders and middlemen.<sup>40</sup>

In recent years, with the push for agro-processing industries, more support from the state in the form of farm subsidies, and improved access to credit and other financial services, the dynamics of the demand for rural land have been altered.<sup>41</sup> Land is being demanded for nonfarm purposes and especially for small- and medium-scale industrial projects and agro-processing units.<sup>42</sup> In a situation where the supply of land is artificially restricted owing to ill-aligned incentive structures, escalating demand for land resources is causing a rise in rural land prices, and consequently, crimes related to land and property are also on the rise.<sup>43</sup> To mitigate these challenges, the state government has instituted some reforms in recent years; these are reviewed in the following section.

### Recent Developments in Land Leasing in Gujarat

The Gujarat government introduced a paradigm shift in its agricultural policy in 2000 with the release of the Gujarat Agro Vision 2010 document.<sup>44</sup> This document outlined a policy for promoting agro-processing industries in Gujarat and, to that end, recommended a review of the existing tenancy and land ceiling legislations in the state to facilitate easier transfer of agricultural land by farmers to nonfarmers and corporate entities.

Consequent to the change in the state’s agricultural policy, there was a rise in demand for agricultural land.<sup>45</sup> Hitherto, agriculture had been a labor-intensive regional activity. But with the state’s focus shifting to a capital-intensive, value-added model of agriculture, private investment was often infused into the agriculture sector.<sup>46</sup> With this, the demand for agricultural land also escalated for nontraditional purposes such as establishing corporate farms, processing units, and other ancillary industries.<sup>47</sup> This change had a profound impact on the local political economy of land markets.

As the competition for the local agriculturists rose, the issue of domicile status of agriculturists began to gain political momentum.<sup>48</sup> A litigation was filed in the Gujarat High Court—when the administration began proceedings to confiscate the land of farmers who were originally from other states (like Punjab and Haryana) but had settled in the Kutch region of Gujarat for about two decades—to

resolve whether the agricultural land could be possessed by agriculturists from outside Gujarat.<sup>49</sup> In 2012, the Gujarat High Court passed a judgment allowing any agriculturist (irrespective of their domicile status) in the country to purchase agricultural land in Gujarat. This ruling opened the local land markets to people from other states who had settled in Gujarat. The implications of this action seem unparalleled as it put local small-scale farmers at greater risk. First, they feared losing limited land resources to outsiders, and second, with the infusion of private capital and technology, there was a fear of greater concentration of agricultural production with the corporates.

Then, in 2013, the government of Gujarat issued a resolution to allot state-held wastelands to corporates and agriculturists for contract farming.<sup>50</sup> Through this move, 39 lakh hectares of land (20 percent of the total land of Gujarat) would become available for contract farming.<sup>51</sup> As the definition of agriculturist was expanded with the aforementioned High Court judgment of 2012, this executive decision by the state government opened a legal route for transfer of large tracts of public land to private entities or individuals (including those from outside Gujarat).

In addition, in 2015, the Gujarat Assembly passed two amendment bills to the Gujarat Tenancy and Agricultural Land Act, 1948. In the first amendment (Gujarat Act no. 5 of 2015), the state government permitted the transfer of agricultural land to any nonprofit public trust established for charitable purposes in the field of health and education.<sup>52</sup> This move seemed to provide land in the public interest. In the past, the public purpose for which the land is acquired has sometimes changed, and in this way the exemptions for public use are misused for diversion of cheap agricultural land.<sup>53</sup>

Through the second amendment (Gujarat Act no. 28 of 2015), the state government promoted equity partnership to the farmer in leasing his or her land to a company that is defined by clause 20 of Section 2 of the Companies Act, 2013.<sup>54</sup> Further, this amendment relaxes the time period for the commencement of production of goods or services for which the land is leased for up to ten years.<sup>55</sup> Additionally, this amendment legalizes a transfer of agricultural land if the last transaction was made to an agriculturist (on or before June 30, 2015) even though the previous transaction or transactions were made to a nonagriculturist.<sup>56</sup> These legal changes have had the consequence of easing access to agricultural land for companies and also diluting preventive legal language to avoid the wrongful transfer of agricultural land for nonagricultural purposes. Further, it is seen to circumvent the difficulties in accessing land through the contentious process of land acquisition (the doctrine of eminent domain).<sup>57</sup>

In 2019, the Gujarat Assembly passed the Gujarat Tenancy and Agricultural Lands (Amendment) Act, 2019 (Gujarat Act no. 18 of 2019), permitting industries to transfer the land acquired by them for industrial purposes to a third party for a bona fide industrial purpose after three years of acquisition.<sup>58</sup> Per the provisions of this amendment, these industries can transfer the acquired land after paying 100 percent, 60 percent, 30 percent, and 25 percent of *jantri* value (the government-decided

TABLE 2

**Summary of Reforms in Land Leasing in Gujarat**

Serial No.	Year	Reform Item
1	2000	Release of Gujarat Agro Vision document
2	2012	Appeal in Gujarat High Court: challenging the confiscation of land held by non-Gujarati agriculturists
3	2013	Decision of Gujarat High Court: allowing agriculturists from any part of the country to acquire agricultural land in Gujarat
4	2015	Amendments to the Gujarat Tenancy and Agricultural Land Laws Act: exemption to nonprofit public trust; promotion of equity partnership to farmers; relaxation of commencement of production; legalize transaction to nonagriculturist under conditions.
5	2019	Amendment to the Gujarat Tenancy and Agricultural Lands Act, 1948: allowing micro, small and medium enterprises (MSMEs) to transfer the acquired land for other bona fide industrial purposes

floor price) of the land to the government after three, five, seven, or more than ten years of possession, respectively.<sup>59</sup> Generally, under the process of land acquisition, if land is not used for the purpose for which it was acquired, it must be resumed back to either the person or persons from whom it was acquired or to the government. But with this provision, the government facilitated a legal route for diversion of land from its primary purpose of acquisition to other purposes (see table 2 for a summary of the above).

### A Brief Overview of the Law and Practice of Land Leasing in Karnataka

Historically, in Karnataka (erstwhile the state of Mysore), the ryotwar land tenure system was the most prevalent proprietorship model.<sup>60</sup> A British officer defined the system this way:

Under the Ryotwari System every registered holder of land is recognized as its proprietor, and pays directly to Government. He is at liberty to sublet his property, or to transfer it by gift, sale, or mortgage. He cannot be ejected by Government so long as he pays the fixed assessment and has the option annually of increasing or diminishing his holding, or of entirely abandoning it.<sup>61</sup>

In Karnataka, there existed different forms of ryots depending on the form of payment to the government and the manner in which ryots were established.<sup>62</sup> Of these different forms of ryots, the position of *inam* (Jodi) lands remained uncertain, as they were gifts from rulers for personal benefit or

religious and charitable purposes in recognition of service to the administration. Upon the independence of India, in December 1947 the Gundappa Gowda Committee was constituted with the purpose of reviewing the existing tenancy laws, simplifying the existing framework of tenancy, and determining the fair compensation for *inam* landholders to abolish *inamdari*, the system that bestowed land titles as grants or gifts (*inam*) in recognition of their service to the ruler or the princely state. The Gowda Committee recommended abolition of *inam* lands, and consequently, the *inamdari* system was brought to an end, first with the passage of the Mysore (Personal and Miscellaneous) Inams Abolition Act, 1954 and then the Mysore (Religious and Charitable) Inams Abolition Act, 1955.<sup>63</sup>

The gravest challenge for Karnataka was to draft a comprehensive, uniform state policy defining the proprietorship relationship between landlords and tenants, accommodating all prevalent local idiosyncrasies. In 1957, the state constituted the Mysore Tenancy and Agricultural Laws Committee (the Jatti Committee) to streamline land reforms in the state.<sup>64</sup> The Jatti Committee submitted its recommendations in 1961, and these, along with other suggestions proposed by expert groups of the central government's Planning Commission, were largely adopted under the Karnataka Land Reforms Act of 1961 (Karnataka Act no. 10 of 1962)—the principal law governing land leasing in Karnataka today.<sup>65</sup>

Per the provisions of the Land Reforms Act of 1961, agricultural land in Karnataka cannot be leased for any period whatsoever, except if the landowner is defense personnel or a seaman and except in the districts of Uttara Kannada and Dakshina Kannada (as amended by the act in 1974).<sup>66</sup> In addition, following the amendment of 1974, there was restriction of transfer by sale, gift, exchange, or otherwise of the land resumed from a tenant within the fifteen years from the date of resumption.<sup>67</sup> Further, if the land is not personally cultivated within one year from the date of resumption, the land automatically vests in the state.<sup>68</sup> The act also provides for limited grounds to eject a tenant.<sup>69</sup> Section 79-A of the act restricted the transfer of agricultural land whether as landowner, landlord, tenant, or mortgagee with possession or otherwise.<sup>70</sup>

As with the consequences of a strict ban on land leasing in Gujarat, the regulatory framework on land leasing in Karnataka also led to an informal land leasing market. Per the official (NSS) estimates, about 6.71 percent of the total area in Karnataka is under formal leasing. However, there is anecdotal evidence that the extent of actual land leasing in the state is in the range of 18–20 percent of the total area. The laws of land leasing were formulated when India and Karnataka had socioeconomic bases that were very different from what they have currently. Decades of economic growth have brought significant changes in the economy of Karnataka, the most important being the establishment of Bangalore, the capital city, as the Silicon Valley of the East. The economic transformation of the region has trickled down to rural areas, and in light of these changes, it is ideal to holistically rethink the objectives of land leasing regulation that are in line with the requirements of the Karnataka of the twenty-first century.

## Recent Developments in Land Leasing in Karnataka

In 2013 the Karnataka government discontinued the practice of land allotment to industries on an absolute sale basis.<sup>71</sup> Instead, the state government permitted allotment of land on a lease basis. Initially, the government permitted land allotment for a lease period of thirty years. This was strongly opposed by the industries as it became difficult for them to raise funds for a short-term lease.<sup>72</sup> To ameliorate the dissatisfaction of the industries, in 2014 the government decided to increase the lease period of land allotment from thirty years to a long-term lease of ninety-nine years for all land acquired and transferred to industrial units from the Karnataka Industrial Areas Development Board (KIADB).<sup>73</sup> In 2017, the state government went back to allotting land on an absolute sale basis to ease difficulty in executing infrastructure and housing projects.<sup>74</sup>

The purpose of shifting from freehold allotment to leasehold was to prevent diversion of land for nonindustrial purposes. However, lobbying efforts by the industrial associations and the realty sector led to the reversal of this policy in a short span of time. A complete reversal of an important policy decision that aimed to control diversion of land parcels hints at the sturdy dominance of the industrial lobby on the state government.<sup>75</sup> There are many examples where collusion among three groups—the political class, bureaucracy, and corporate and industrial groups (collectively known as the PBC nexus)—for appropriation of land resources is well established.<sup>76</sup> The dominance of the PBC nexus in land deals is a major concern for structural reforms that support transparent transactions in land markets. In this light, the allotment of land to industrial bodies on an absolute sale basis seems like another act of insider dealing, leading to wasteful use of a limited natural resource.

In 2015, the state government amended Section 95 of the Karnataka Land Revenue Act of 1964 (Karnataka Act No. 31 of 2015).<sup>77</sup> With this amendment, the state government imposed strict conditions on the farmhouses constructed for the residence of the agriculturist or for keeping agricultural equipment, to be used only by the farmer and not to be leased out to any individual or agency for commercial activities.<sup>78</sup> In Karnataka, farmhouses (for residential purposes) were built on agricultural lands and leased out for commercial activities on a large scale (see box 1).<sup>79</sup> This was an important move to restrict the circumvention of the land leasing regulation (see table 3 for a summary of the above).

## Lessons From Land-Leasing Reforms

The above analysis indicates that both Gujarat and Karnataka took measures that ease transfer of land in favor of industries. To effectuate these changes, the government of Gujarat has relied mainly on legislative amendments—whether to ease transfer in favor of nonprofit public trusts, incentivize farmers to lease out agricultural land, provide avenues to legalize older transfers of agricultural land,

BOX 1

**Farmers to Lease Out Agricultural Land for Management Contracts**

In 2012, the state cabinet cleared an amendment to the Karnataka Land Reforms Act, 1974. This amendment aimed to allow farmers to lease out their agricultural land to private agro-companies for management contracts.<sup>80</sup> The proposed amendment permitted leasing of land only if the private players and agro-companies entering the lease actually undertook cultivation and harvest of the farm produce and utilized value-added services (such as high-tech cultivation and precision farming) to increase the productivity of the leased land.

TABLE 3  
**Summary of Reforms in Land Leasing in Karnataka**

Serial No.	Year	Item
1	2013	Executive action: Discontinue allotment of land to industries on absolute sale basis
2	2013	Executive action: Begin land allotment on a short term of thirty years
3	2014	Executive action: Raise the lease period from thirty years to ninety-nine years
4	2015	Amendment to Karnataka Land Revenue Act of 1964: restrict construction and size of farmhouses on agricultural land
5	2017	Executive action: Restart allotting land on absolute sale basis

or permit transfer of acquired land for other bona fide public purposes—whereas the government of Karnataka has relied more on executive actions, first to shift the practice of transfer of land to industries from absolute sale to a leasehold basis and later to reverse its stance and maintain the status quo.

The actions of both state governments to favor industries over agricultural communities have been criticized by the media and the opposition parties in the state. However, the government’s continuation of such policies (some of which are positive, long overdue reforms, whereas others have the potential of being misused by influential sections of the society) shows a strong dominance of industrial bodies, real estate developers, and other stakeholders over the political economy of the states.

Further, it is noted that neither of the states have undertaken serious structural reform to fix the fundamental bottlenecks with respect to the land leasing market, nor have they promoted the rights

of the tenants to improve the balance of power between the tenants and the landlords. With increasing private investments and more technological diffusion in the agriculture sector, it remains critical to observe the altering political economy equations of the various stakeholders. With severe information asymmetries, lack of true land records, and a rise in litigation surrounding land and property matters, state governments must think about systematically cleaning the mess of poor land records, create institutional processes to facilitate transparent open-market transactions, and invest in improving digital accessibility to all. These structural reforms have the potential to begin a new phase of rural growth, which will allow the best possible use of land resources for the maximum number of people with the least transactional cost.

## Change in Land Use

In a rapidly developing economy, the relative demand for land use changes over time. There is a causal relationship between a country's socioeconomic priorities and the drivers of its relative demand.<sup>81</sup> In a developing economy such as India's, the relative demand for land resources is changing rapidly. This transformation is causing massive changes in the land use patterns as land resources are being demanded for various nonagricultural purposes.<sup>82</sup> Therefore, it is imperative to have institutional designs that support the optimal allocation of land resources across geographies and time. Having robust institutions that are capable of addressing the current challenges is necessary to achieve efficient and inclusive management of land resources.

This section will focus on change in land use (CLU), where an institutional process changes the availability of land at a location, causing the conversion of land from one use to another, in order to meet its relative demand. Such changes are mediated by regulatory modifications, instituted in light of social, economic, and political considerations.<sup>83</sup>

Investigating CLU regulation is important for understanding the demand and supply dynamics of local land markets.<sup>84</sup> CLU regulation is an elastic tool at the disposal of the government to control the supply of land resources.<sup>85</sup> Sometimes this tool can enable the government to perform legitimate functions such as planning, but other times it acts as a hindrance to the natural changes in the economy. At the same time, it could also be reflective of the changing relative demand for land resources. For example, many state governments have recently listed the setting up of solar parks as a dedicated CLU purpose.<sup>86</sup> This development is indicative of a rise in demand for land to set up solar plants.<sup>87</sup>

An efficient CLU process should enable quick disposal of legally permissible CLU requests at the least financial and time costs. However, in reality, the CLU process remains tangled in complicated bureaucratic processes that delay conversion requests and create avenues for rent seeking.<sup>88</sup> CLU

regulations have strong distributive implications for the local economy as they have the potential to unlock the economic growth of a region.<sup>89</sup> There are examples where differentiated CLU rules have led to diverging growth of similarly situated regions.<sup>90</sup> Therefore, having carefully calibrated CLU regulations is important, especially in low income and developing countries.

### Legal Framework for CLU in Gujarat

The Gujarat Land Revenue (GLR) Code of 1879 regulates the process of conversion of agricultural land to nonagricultural uses in the state of Gujarat.<sup>91</sup> The GLR Code is applicable to the whole of Gujarat, except in areas that are notified as planning areas by the government of Gujarat.<sup>92</sup> Under the law, only the legal holder or occupant of the land is eligible to apply for conversion of the land for nonagricultural purposes.<sup>93</sup> In Gujarat, any agricultural land can be converted for a broad range of purposes, such as residential, charitable, educational, mineral, brick production, and industrial and commercial purposes.<sup>94</sup> At the same time, the GLR Code also stipulates many restrictions on the conversion of land use and lists different empowering officers depending on the location of the to-be-converted agricultural land parcel.<sup>95</sup>

### Recent Reforms in CLU in Gujarat

In 2008, a government resolution implemented administrative changes in the CLU process to enable easier and faster clearance of CLU requests.<sup>96</sup> This move reduced the stipulated timeline for the review and completion of the application process from the existing ninety days to forty-five days and thirty days for nonagricultural and residential purposes, respectively. This action was necessary to improve the efficiency of the land administration in clearing the CLU demands.

In 2015, the state government passed an amendment to the Gujarat Tenancy and Agricultural Lands Act, 1948, to legalize the conversion of land purchased by an institution registered as a public trust for a charitable purpose or any company registered under Section 8 of the Companies Act, 2013, in contravention to Section 63(1) on or before June 30, 2015.<sup>97</sup> Under the provisions of this act, such institutions or companies are permitted to make an application to the concerned collector for conversion of such land into nonagricultural (NA) purposes. And if the collector finds the transaction to be in contravention, a fine will be imposed, on payment of which the transaction will be legalized.<sup>98</sup> Given that the extent of such transactions is unknown, it is difficult to grasp the true impact of this action—but it creates avenues for past transactions to amend their illegality.

In 2016, Gujarat amended the Land Revenue Code of 1879. Through this amendment, the Gujarat government adopted a practice of Multipurpose NA certification to further ease the CLU process.<sup>99</sup> The purpose of the Multipurpose NA is to free the landholders (who have already acquired the NA

certificate) from the hassle of having to repeat the CLU process in the case of a change in purpose of the already converted land. Earlier, each time a change in purpose for the converted land was required, the CLU process had to be initiated from the beginning. It was both time-consuming and financially demanding.<sup>100</sup> In effect, with the Multipurpose NA in place, the purpose for which the NA certificate is required becomes redundant until it meets the zoning guidelines.

This move at the outset seems good, as it is expected to improve the functioning of the land conversion process. But a finer analysis highlights that it opens the door for unwarranted conversions of land purely for real estate speculations. Taking note of such a possibility, the opposition parties in Gujarat disapproved this amendment because they remained suspicious that the provision of Multipurpose NA has grave potential to be misused by the influential class (for example, the political class, real estate developers, or builders) to set up real estate projects on lands acquired for industrial development. The government has dispelled the opposition's criticism by arguing that other zonal and town planning legislation is in place to check on such unwarranted diversion of land.<sup>101</sup>

This amendment definitely opens up legal avenues for indirect diversion of agricultural land for speculative trading in land markets. Since such practices deflect from the core objective of CLU permissions to generate employment through the development of real economy, conversions for speculative real estate investments are unwarranted in the larger public interest. In rural areas, where information asymmetries are severe, the economically and politically better off strata of society is expected to disproportionately benefit from such activities. Further, once the agricultural lands are opened up for nonagricultural uses, their valuations are expected to rise manifold, creating strong incentives for diversion of agricultural land. In all, where this move will significantly help genuine conversions, it also has the potential to enable diversion of agricultural land for unwarranted economic activities.

In 2017, the Gujarat Assembly passed another amendment to the GLR Code, 1879.<sup>102</sup> This amendment allows unauthorized properties (estimated at over 700,000) built on agricultural land to be regularized without having to convert their land use purpose.<sup>103</sup> Such provisions are also being adopted by other Indian states. Many states have enacted homestead acts that give dwelling rights to farmers over their lands.<sup>104</sup> This move is expected to bring a positive change for millions of people who were living on unauthorized properties or in unauthorized structures on agricultural lands. It will definitely give such people improved security of habitation.

To further ease the process of CLU, in 2018 a government notification suggested that the applicant need not submit maps or layout plans for CLU approval if the land is under *nagarpalika* (municipality) and was incorporated within the local town planning scheme. Rather, the government moved to a new mechanism of “self-declaration by the applicant.”<sup>105</sup> This intervention is expected to ease the

CLU process as a majority of cases may not be required to go through the lengthy approval process. It will not only save time and financial resources of the applicants but will also significantly ease the burden of extensive verification from the revenue department.

In the same year, to further improve the efficiency of the CLU process, the Gujarat administration started an online NA system on a pilot basis in two cities, Ahmedabad and Gandhinagar.<sup>106</sup> In November 2018 the state government expanded the online NA system to the entire state. Gradually, the online land premium payment system was also extended to cover the entire state, after running a pilot in the districts of Bharuch, Gandhinagar, Rajkot, Surat, and Vadodara.<sup>107</sup> As of 2019, the Gujarat government had collected a sum of 4,014 crore rupees (around \$550 million) between 2014 and 2019 as premium payments. In this period, the state government approved 32,686 (74 percent) of the total 44,180 applications for CLU.<sup>108</sup>

It seems that the online system has allowed quick disposal of a large number of CLU requests. Further, CLU conversions have served well for the state government to ramp up its revenue. Since comparable statistics are unavailable to comment on the magnitude of the jump in revenue collection or the extent of CLU conversions taking place in the state, the collection of more than \$100 million in a year is indicative of the scale at which agricultural land is being converted in the state. Taking note of the rash conversion of agricultural land occurring in the state, the comptroller and auditor general (CAG) of India has condemned the state government.<sup>109</sup>

In another unprecedented move, the Gujarat government in 2019 passed an executive order to transfer the nodal powers of *panchayat* bodies to issue NA permissions to district collectors. This is a significant move as panchayats are constitutionally elected bodies at the village level, whereas district collectors are officials of the state government. The state government has cited that the panchayat bodies do not have the necessary infrastructure to execute the online process.<sup>110</sup> However, this is clearly in violation of the principles of devolution of governance to local bodies.<sup>111</sup> Further, this move is contrary to the Digital India campaign of the central government, which vouches for the digital connectivity of all the panchayats and villages.<sup>112</sup> Instead of strengthening the digital infrastructure of the local institutions, the state government has weakened their jurisdiction and responsibility. There are media reports that the state government has taken this move to prevent the opposition party from accessing the funds (processing fees) collected by panchayats as part of this process for the then-upcoming panchayat-level elections in the state (see table 4 for a summary of the above).<sup>113</sup>

### Legal Framework for CLU in Karnataka

The Karnataka Land Revenue Act, 1964 (Karnataka Act no. 12 of 1964) is the principal act that governs the conversion of land use from agricultural to nonagricultural purposes in Karnataka.<sup>114</sup>

TABLE 4

**Summary of Reforms in CLU in Gujarat**

Serial No.	Year	Item
1	2008	Government resolution to improve timelines for CLU
2	2015	Amendment to Tenancy Act of 1948: permit public trust and section 8 companies to register NA purpose for lands purchased in contravention to Section 63(1)
3	2016	Amendment to Land Revenue Code of 1879: introduction of Multipurpose NA
4	2017	Amendment to Land Revenue Code of 1879: dwelling rights to farmers
5	2018	Government resolution to shift to new mechanism of self-declaration by applicants
6	2018	Government resolution to shift to online NA system (subsequently online premium payment option)
7	2019	Government resolution to transfer nodal power of panchayat bodies to issue NA certificates

Section 95 of the act prescribes the procedure for CLU.<sup>115</sup> The crucial step for CLU approval is to seek consent from the concerned revenue authority—the collector, subdivisional officer, or tahsildar—depending on the location of land for which a CLU certificate is requested. The CLU process begins with the submission of an application, which is followed by verification of the documents and checking for compliance with the Master Plans. Once the request is approved and the applicable fee is collected, a CLU certificate is issued for a particular nonagricultural purpose.<sup>116</sup>

In addition, Section 109 of the Karnataka Land Revenue Act, 1964 gives the state government the power to allot agricultural land to any social or industrial organizations to be used for industrial purposes, educational institutions, places of worship, a housing project, or horticulture, including floriculture or an agro-based industry.<sup>117</sup> Further, the state government has the power to go beyond the abovementioned purposes to grant an exemption (on a case-by-case basis) in the public interest.<sup>118</sup> Hence, there seems to be a legal discretion with the state government to allow the conversion and allotment of agricultural land for other purposes in the public interest.

**Recent Reforms in CLU in Karnataka**

In 2015, the state government passed an amendment to the Karnataka Land Reforms Act, 1961 (Karnataka Act no. 33 of 2015).<sup>119</sup> This amendment eased the restriction on the transfer of agricultural land as it enhanced the annual income limit from 2 lakhs to 25 lakhs from sources other than agricultural lands to acquire any agricultural land in the state.<sup>120</sup> The rationale to enhance the limit

was to consider the revision in rupee value since 1995. This move significantly increased the number of people who were now eligible to acquire the agricultural lands. In a January 2016 judgment, a single bench of the Karnataka High Court permitted the retrospective application of this amendment from March 3, 1974.<sup>121</sup> While writ appeal has been filed in the high court challenging this decision, for the time being, this judgment legalizes thousands of transactions earlier considered illegal in Karnataka.<sup>122</sup>

This amendment further relaxed the restrictions by empowering the deputy commissioners in place of the assistant commissioners to grant permission to nonagriculturists under Section 80 of the Land Reforms Act, 1961 to purchase agricultural land.<sup>123</sup> Compared with assistant commissioners, deputy commissioners are relatively low-rank officers. This move is expected to promote responsiveness in decisionmaking. At the same time, there are concerns that this move has the potential to dilute preventive provisions of the law, as a low-rank officer has less power and jurisdiction to implement the restrictive actions stipulated in the law. Further, the amendment enhanced the power of the government (through deputy commissioners) to allow double the area of land exempted for acquisition by nonagriculturists under the provisions of Sections 63, 79A, and 79B of the act.<sup>124</sup> This amendment clearly highlights how the state government is relaxing the transfer of agricultural land for nonagricultural purposes. It is doing so by increasing the size of the pool of interested parties, diluting the preventive clauses, and expanding the permissible limits under exemption clauses. The judiciary has also acted in ways that further relaxed the preventive provisions of the act.

In 2016, the Karnataka High Court ordered the state government to restrain from granting permission to any type of CLU for properties in the metropolitan area of Bangalore city until further notice.<sup>125</sup> The high court passed this interim order as the state government did not constitute a Metropolitan Planning Committee (MPC).<sup>126</sup> The role of the MPC is to inspect the development plan for the urban areas as per Sections 503 A and B of the Karnataka Municipal Corporations (KMC) Act of 1976.<sup>127</sup> The MPC is a critical regulatory institution in the urban development process. Implementation of urban planning as per the approved Master Plan hinges on the effective functioning of the MPC. This court order has been diluted and CLU is ongoing in the metropolitan area of Bangalore city.<sup>128</sup>

In 2017, in a welcome move for millions of agricultural laborers, Karnataka amended the Karnataka Land Reforms Act (through the passage of Karnataka Act no. 43 of 2017) to allow registration of ownership of a house for agricultural laborers with respect to a dwelling house built on land not belonging to them before 1979.<sup>129</sup> This was a progressive move by the state government, as it is expected to bring security of habitation to millions of underprivileged people.

In another noteworthy move in 2017, the Karnataka government identified 200,000 acres of fallow lands and served notice to landowners to either plow the land or offer it for contract farming. This

action is further evidence of the government's inclination to provide a constant supply of land to private industries for agriculture and other commercial activities.<sup>130</sup>

To promote the ease of doing business in the state, the state government in 2018 launched an online process to enable CLU.<sup>131</sup> Under this new process, if the proposed land conversion complies with the Master Plan published under the Karnataka Town and Country Planning Act, 1961, such cases would be deemed converted without the need for explicit approval.

The online process further simplifies the overall institutional framework to support CLU. Up until 2018, converting an agricultural land to NA purposes required submission of more than twenty documents from various government departments.<sup>132</sup> Obtaining all these documents from government departments involved significant time and money costs (including bribes to revenue officials).<sup>133</sup> Under the new online system, the maximum time for the submission of objections by the government departments is limited to one month. The overall amount of documentation to be submitted by the applicant has been relaxed.<sup>134</sup> All other documents will be collected by the revenue department through coordination with other departments. This reform is expected to bring people relief from physical visits to multiple government departments and help improve the overall ease of doing business in Karnataka.

Furthering the move to relax the transfer of land for industrial purposes and removing the hassle of land conversion for industries, the Karnataka government passed the Karnataka Land Reforms (Amendment) Bill, 2020 in March 2020, replacing the earlier-promulgated ordinance of November 20, 2019.<sup>135</sup> The act amended Section 109 of the Land Reforms Act—permitting industries to buy agricultural land directly from farmers without the strict intervention of the state bureaucracy. However, the purchase has to be ratified by the revenue department. It is deemed approved if no objections are raised within thirty days.<sup>136</sup>

Industrial bodies have hailed this move, which is expected to simplify the process and limit it to thirty days—something that used to take more than three years.<sup>137</sup> Between 2013 and 2019, 113 of 142 approved projects (80 percent) in Karnataka—projects that were worth more than \$5 billion and affected employment opportunities for 80,000 people—that could either not start or had to be shut down because of bureaucratic logjams. Through the amendment, the government hopes to firm up its revenue through increased tax collection, generate employment opportunities, and attract investors to reignite industrial growth in the state.

Further, this amendment has allowed the sale of converted lands—under Section 109 of the Land Reforms Act—by companies or organizations that are facing financial distress.<sup>138</sup> Earlier, the act restricted the sale of converted land by industries, educational institutions, and other exempted

TABLE 5

**Summary of Reforms in CLU in Karnataka**

Serial No.	Year	Item
1	2015	Amendment to Land Reforms Act of 1961: raise income limits to purchase agricultural land; enhance the power of government and deputy commissioners to double the area of land under exempted categories
2	2016	Decision by Karnataka High Court: allowing retrospective application of the 2015 amendment
3	2015	Amendment to Land Revenue Act of 1964: strict regulation of farmhouses on agricultural lands
4	2016	Decision by Karnataka High Court: restraining issue of CLU certificates in Bangalore Metropolitan Area
5	2017	Amendment to the Karnataka Land Reforms Act, 1974: allow registration of dwelling unit
6	2018	Launch of online portal to issue CLU certificates
7	2020	Amendment to Land Reforms Act of 1961: permit converted land to be sold for same purposes; allow industries to purchase land directly from farmers and limit approval period to thirty days

entities and stipulated that in the case of the collapse of an enterprise or the failure of an entrepreneur, the converted land should be returned to the government at no cost (see table 5 for a summary of the above).

The opposition has opposed this amendment, terming it as means to facilitate “real estate mafia.”<sup>139</sup> There are serious doubts whether this move will promote industrial growth or help entrepreneurs liquidate their assets. The opposition has raised concern that this move will result in the rise of fake entrepreneurs who take control of cheap agricultural land for real estate speculation.<sup>140</sup>

### Lessons From Land-Leasing Reforms

The above analysis on CLU regulation highlights how a mix of legislative and executive powers is used by the state government to attain a common objective of simplifying the CLU process and permitting the transfer of agricultural land for nonagricultural purposes. It is expected that land use conversions will take place, as the relative demand for land is changing with the altering needs of a fast-growing economy. But what is worrisome is the reckless pace at which CLU requests are being approved. In most situations, CLU conversions are not based on real demand, such as development of factories, industrial compounds, or infrastructure, but on speculative demand for real estate development. A major concern for such activities is that they do not benefit the larger public and end

up further empowering the influential section of society, who, because of access to better knowledge, exploit the imperfections of land markets.

On the positive side, both Gujarat and Karnataka have taken measures to digitize the CLU process. This is a welcome move as it is expected to reduce the transactional cost and bring more transparency. But a grave concern remains of unequal access to digital services given that rural areas have poor to no digital infrastructure yet. It is important for state governments to equip far-off regions with digital connectivity and cultivate digital literacy among the public to ensure the most equitable use of digitization of governance measures.

In a bold move, Karnataka recently allowed the direct purchase of agricultural land from farmers. This move will definitely shorten the transaction time, but there is a potential for misuse by influential buyers who could mislead the farming communities by underpricing the transactions. Further, resale of converted land seems like a recipe for circumvention of preventive clauses. On the whole, it seems the reforms instituted have the potential for positive change for genuine transactions, but at the same time they open the door to back-channel transactions. A true test of the intention of the state governments will be to follow through on the implementation of the reforms, especially to control for extralegal transactions.

## Conclusion

The above analysis demonstrates that both Gujarat and Karnataka have taken a slew of measures to ease the restrictions on the transfer of agricultural land for nonagricultural purposes. In making the land transfers easier, both states have relied on a mix of legislative and executive actions. In addition, the judiciary has also delivered judgments that have greatly expanded the relaxation of the restrictions. Further, CLU regulations changed more frequently than the land leasing regulations. Both states often relied on executive powers to change CLU regulation to meet the demand of agricultural land for nonagricultural and other commercial purposes.

It is also found that while only some reforms, such as the transition of existing processes to digital platforms or simplifying procedural requirements to collect documentation, were more systematic in nature, a majority of reforms that aimed at easing the restrictions on the transfer of agricultural lands without improving the structural efficiency of the land markets seemed short-sighted. But it is worth noting that the recent reforms are a departure from their historical attempts. Earlier, the reforms mostly aimed at altering the existing processes while keeping the overall objective of the regulation intact. However, the recent reforms aim to alter the core objective of the regulation itself. It is true that when the regulations (for land leasing and CLU) were originally drafted, India, and particularly

Gujarat and Karnataka, had a socioeconomic context that was very different from what it has today. With economic growth, rapid industrialization, and expanding urbanization, the ongoing realities are shifting rapidly. Hence, it is important to pause for a reality check and holistic review of the existing bottlenecks in land markets, and reflect on the desired reforms, specifically on matters related to land leasing and CLU.

## Major Themes

The discussion in the paper highlighted three major themes that have received consistent attention from the state governments of both Gujarat and Karnataka. It is worth deliberating on them at length and understanding their implications on the land markets in Gujarat and Karnataka.

*Access to land resources for industry.* Although the states have taken proactive measures to provide land to industries for industrial and infrastructural development, the causal link between access to more land and industrial (and therefore economic) growth remains weak.<sup>141</sup> In the past, the policy of creating land banks, special economic zones, and special investment regions proved ineffective, as they did not help the states reach the desired levels of industrial growth.<sup>142</sup> Therefore, it is important for state governments to rethink such a short-sighted policy measure and think more structurally about initiating policy actions that facilitate development of efficient land markets. The use of legislative and executive actions to transfer land resources for industrial development does not qualify as a long-term, sustainable solution.

Henceforth, it is important for states to shift their focus to improve access to better and more accurate information for stakeholders, update and rectify land records, expand access to digital infrastructure to far-off regions, ensure speedy disposal of land-related disputes, and simplify overall land-related regulation. These actions may require a longer time frame to implement, but they ensure open market transactions with lower transactional costs.

*Push toward capital-intensive agriculture.* In recent times, there has been a greater push for capital investment in the agricultural sector. This push is aimed at improving farm productivity and agricultural supply chains. Agriculture has long been a labor-intensive regional activity in which agriculturists have relied on local institutions to access finance (for example, moneylenders and public banks) and to sell their produce in regional markets. With the growing integration of agricultural markets, local institutions (formal and informal) are facing competition and eroding fast. Further, given the huge dependency of the population on agricultural land, there are fears of massive forceful displacement and transfer of ownership of agricultural lands to private companies for commercial or contract farming. These shifts in local dynamics are having substantial consequences on the political economy of rural India.

These concerns need serious deliberation. It is important to ask whether a capital-intensive model of agriculture is suitable for India. And if so, how do Indian states plan on absorbing the laid-off farm labor? Such policy moves, in which technological solutions are being considered to improve the efficiency of farm production, need detailed evaluation in relation to the dependency of farming communities on the land. A policy where farm labor is replaced by capital investment without creating sufficient nonfarm avenues guarantees deprivation for a large population. Therefore, such policy measures must be unfolded with great caution and careful thinking and planning.

*A shift to digital governance.* In recent years, both Gujarat and Karnataka have moved toward a larger integration of their existing land governance processes with digital media. These measures are aimed at bringing greater efficiency and transparency to the existing institutional design. Despite the promises of greater efficiency, there remain some reservations concerning the equity in access to digital platforms and superficial digitization of existing processes without fixing the existing bottlenecks. Such quick-fix solutions where digitization is considered a panacea for all the underlying problems are a matter of grave concern and must be evaluated in finer detail.

Digital reforms have the potential to help people with access to digital literacy, infrastructure, and resources for such services, which in the case of India is limited to a few better-off people. In light of these caveats, such policy recommendations must be taken with a pinch of salt. Given that each state has its own peculiarities, complete digitization of governance seems far-fetched. Indeed, what seems more practical and advisable is a hybrid model of paper-based and digital governance as state governments are testing the efficacy of their individual digital governance modules.

### Looking Ahead

Land markets are far from perfect in India, owing to wide information asymmetry, power imbalance among the buyers and sellers, and lack of updated records. The imperfect nature of land markets creates a vicious cycle, where the PBC nexus weakens the state's willingness and capacity to reform, and in turn, such weak-willed and incapable states enable further advancement of the PBC nexus. This vicious cycle generates a stable but undesirable equilibrium.

It is intriguing to note that the state is actively facilitating the transfer of agricultural (low value) land for nonagricultural (high value) purposes. Often, the role of the state is questioned for its proactive approach in allowing the transfer of land for industrial development. There are two sides of the argument to understand the role of the state. On the one hand, it could be argued that the proactive manner of the state is simply the result of the PBC nexus, which facilitates land grabbing and exploits the imperfection of land markets. Consequently, the nexus is the biggest impediment to structural reforms that support transparent land markets. On the other hand, it is argued that the agriculture

sector is in bad shape, and agriculturists are actively looking for nonfarm avenues to support their livelihoods. Therefore, they themselves are actively looking to dispose of their land assets and the state is facilitating this move by creating nonfarm avenues.

There is some truth in both of these arguments, and the reality seems guided by both. Yet a careful analysis highlights that both of these arguments indicate two different but interconnected problems. The first argument suggests that breaking up the vicious PBC nexus is critical to improve the state's willingness to institute long-term reforms. The second one highlights the need to develop the operational capacity of the state to improve the equilibrium of land markets. However, it seems impossible to improve one without acting on the other—a weak-willed state will not develop a strong capacity to reform, and a weak-capacity state will not develop a strong will to institute reforms. So, governments need to focus on these twin problems simultaneously to break out of the vicious circle and institute reforms that support efficient land markets where a maximum number of people can make the best use of land resources at the least transactional cost.

Having a sustainable policy on effective utilization of land resources remains a challenge. Therefore, it is important for state governments to take actions that bring structural changes in the land markets. Without this, the rights of agricultural tenants and laborers will not advance. In the next phase of India's growth story, land as a factor of production will play a significant role. Therefore, it is high time to begin a cohesive dialogue on land that is conducive to developing efficient land markets. In the event that state governments fall short of this goal, past experience suggests that risks of the emergence of conflicts (both legal and extralegal), and the economic and social prosperity of the nation, will (most likely) be its first casualty.

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- 128 "An outdated Master Plan 2015 is being used to issue permission to change land use", Bangalore Mirror, February 29, 2020, <https://bangaloremirror.indiatimes.com/bangalore/cover-story/an-outdated-master-plan-2015-is-being-used-to-issue-permission-to-change-land-use-in-bengalurus-outskirts/articleshow/74408427.cms>.
- 129 A copy of Karnataka Act no. 43 of 2017 can be accessed at [http://dpal.kar.nic.in/ao2017/43%20of%202017%20\(E\).pdf](http://dpal.kar.nic.in/ao2017/43%20of%202017%20(E).pdf).
- 130 ManuAiyappa Kanathanda, "Plough or Lease Land, Karnataka Tells Farmers," Times of India, August 11, 2017, <https://timesofindia.indiatimes.com/city/bengaluru/plough-or-lease-land-karnataka-tells-farmers/articleshow/60012957.cms>.
- 131 By amending Section 95 of the Karnataka Land Revenue Act of 1964.
- 132 These included no-objection certificates from the Karnataka Land Reforms Act, Karnataka Scheduled Castes and Scheduled Tribes (Prohibition of Transfer of Certain Lands) Act, and Tenancy Act.
- 133 "Land Conversion in Karnataka Goes Online Now to Check Bribery," Economic Times, last updated September 18, 2018, [https://economictimes.indiatimes.com/news/politics-and-nation/land-conversion-in-karnataka-goes-online-now-to-check-bribery/articleshow/65852785.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/politics-and-nation/land-conversion-in-karnataka-goes-online-now-to-check-bribery/articleshow/65852785.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst).
- 134 Now, the applicant needs to submit a total of three documents in the application: (1) a copy of the mutation record, (2) a copy of Records of Rights, Tenancy & Crops for the current year, and (3) an affidavit with an 11E sketch (if applicable).
- 135 Chethan Kumar, "Industry Can Now Buy Land Directly from Karnataka Farmers," Economic Times, updated May 11, 2020, <https://timesofindia.indiatimes.com/india/industry-can-now-buy-land-directly-from-karnataka-farmers/articleshow/75665688.cms>.
- 136 Kumar.
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- 138 Bharath Joshi, "Karnataka Assembly Clears Land Reforms Law Amid Rally," Deccan Herald, March 19, 2020, <https://www.deccanherald.com/state/karnataka-assembly-clears-land-reforms-law-amid-rally-815509.html>.
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- 141 Existing studies using the CMIE database indicate that only about 8 percent of the industrial bottleneck is due to land-related matters.
- 142 Per the CAG report, only about 60 percent of land acquired for special economic zones is being used; the rest is lying idle. A portion of such land (14 percent) has been de-notified and passed on for nonindustrial uses. Access full report here: “Performance of Special Economic Zones”, Report of the Comptroller and Auditor General of India, last updated November 28, 2014, <https://cag.gov.in/en/audit-report/details/987>.



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