



## Terwilliger Center for Innovation in Shelter



# Housing Microfinance and Tenure Security: Understanding Their Relationship in Uganda

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**J. Ronald  
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## Contents

|   |    |
|---|----|
| Acknowledgments.....  | 4  |
| Relevancy of tenure security in advancing adequate housing.....   | 5  |
| Section 1: Overview of Uganda’s land tenure system .....  | 7  |
| Section 2: Understanding housing microfinance client behavior<br>regarding formalization of land tenure security..... | 10 |
| Assessing Hypothesis 1.....   | 14 |
| Assessing Hypothesis 2.....   | 16 |
| Section 3: Understanding financial service providers’ responses<br>to land tenure security .....                      | 16 |
| Assessing Hypothesis 3 .....  | 16 |
| In summary.....   | 22 |
| Appendix 1: Data composition .....  | 23 |

## Acknowledgments

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### About the Mastercard Foundation

The Mastercard Foundation seeks a world where everyone has the opportunity to learn and prosper. The foundation's work is guided by its mission to advance learning and promote financial inclusion for people living in poverty. One of the largest foundations in the world, it works almost exclusively in Africa. It was created in 2006 by Mastercard International and operates independently under the governance of its own board of directors. The foundation is based in Toronto, Canada. For more information and to sign up for the foundation's newsletter, please visit [mastercardfdn.org](http://mastercardfdn.org). Follow the foundation at @MastercardFdn on Twitter.

### About the partnership

Habitat for Humanity Canada, Habitat for Humanity International and the Mastercard Foundation partnered to implement a six-year project in Africa titled Building Assets, Unlocking Access. This project, carried out by Habitat for Humanity's Terwilliger Center for Innovation in Shelter, provides technical assistance to six leading financial institutions in Uganda and Kenya as they develop housing microfinance products and nonfinancial support services for people living on between US\$5 and US\$10 per day. The aim is to enable these people to secure adequate and affordable housing and improve their living conditions.

### About Habitat for Humanity International

Driven by the vision that everyone needs a decent place to live, Habitat for Humanity began in 1976 as a grassroots effort on a community farm in southern Georgia. The Christian housing organization has since grown to become a leading global nonprofit working in

more than 70 countries. Habitat for Humanity operates in 12 countries in Sub-Saharan Africa through a number of housing initiatives. It has witnessed a growing demand for financial services that address housing needs among microfinance institutions and clients. For more information, visit [habitat.org](http://habitat.org).

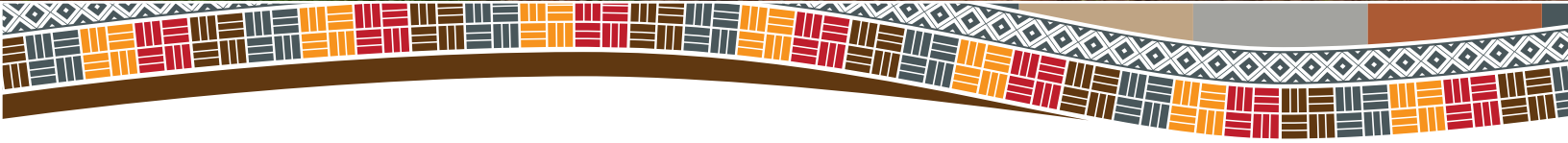
### About the Terwilliger Center for Innovation in Shelter

This project is implemented by Habitat for Humanity's Terwilliger Center for Innovation in Shelter. Habitat established the Terwilliger Center to work with housing market systems by supporting local firms and expanding innovative and client-responsive services, products and financing so that households can improve their shelter more effectively and efficiently. Habitat can have exponentially more impact by improving systems that make better housing possible for millions more families. The role of the Terwilliger Center stays true to Habitat for Humanity's original principles of self-help and sustainability by focusing on improving systems that enable families to achieve affordable shelter without needing ongoing direct support. To learn more, visit [habitat.org/TCIS](http://habitat.org/TCIS).

### Contributors to this publication

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## Relevancy of tenure security in advancing adequate housing

This report, commissioned as part of the Building Assets, Unlocking Access project, presents the key findings of research on the interrelation of housing microfinance and land tenure security within Uganda. The Building Assets, Unlocking Access, or BAUA, project was implemented by Habitat for Humanity's Terwilliger Center for Innovation in Shelter in partnership with the Mastercard Foundation. It focuses on increasing access for households in the "bottom of the pyramid" to the financial services necessary to improve their living conditions. The Terwilliger Center provided advisory services to six financial institutions in Uganda and Kenya to facilitate

the design, implementation and expansion of housing microfinance products to households living on between US\$5 and US\$10 per day to support incremental construction and home improvement.

Though land tenure has been acknowledged within the international development community as a critical component underlying households' sense of security and potential for economic development, understanding of the relationship between land tenure and a household's investment in the development or improvement of their housing and property is still very limited. In the Sub-Saharan

African context, an estimated 90 percent of rural land is not formally registered or documented.<sup>1</sup> The absence of formal titles precludes households in the base of the pyramid from gaining access to traditional housing finance, limiting their capacity to invest in and improve their homes.<sup>2</sup> Housing microfinance has proved to be a viable solution to this market financing gap for low-income households in Uganda and Kenya. However, questions remain regarding the influence of housing microfinance on increasing land tenure security and of tenure security on scaling housing microfinance. This report seeks to elaborate

on these dynamics and further the understanding of development actors working within the housing and land sectors.

At the outset of our work in housing microfinance, Habitat's Terwilliger Center for Innovation in Shelter developed three key hypotheses on the relationship between investment in affordable housing (within the scope of housing microfinance) and households' land tenure security. The first two hypotheses address consumer behavior, and the third focuses on the role of financial service providers.

**Hypothesis 1** suggests that households engaging in housing microfinance may view their investment in land development or housing improvements as demonstrating or strengthening their tenure claim. In this scenario, housing microfinance indirectly supports the improvement of tenure security and as such dissuades clients from desiring support for direct tenure security improvement.

**Hypothesis 2** provides the contrapuntal to Hypothesis 1, supposing that households engaging in housing microfinance may seek more formalized levels of land tenure security in order to protect the investment they are making in their housing. If validated, this theory suggests that housing microfinance presents a key opportunity to engage with households to improve their land tenure security.

**Hypothesis 3** suggests that a lack of understanding on the part of financial service providers about legitimate forms of tenure security deters them from realizing a valid market opportunity for housing products not backed by mortgages, and unnecessarily limits the people to whom they provide housing microfinance. Understanding alternative forms of verifying land tenure could unlock additional markets for these institutions, along with new financing products to help low-income households improve their housing.

The Building Assets, Unlocking Access project presented an opportunity for us to assess these dynamics in the context of Uganda, where the Terwilliger Center had recently worked with three financial institutions to develop housing microfinance products. Centenary Bank Ltd., Pride Microfinance Ltd. and Opportunity Bank all allowed us to review a sampling of their housing microfinance client files and arranged for interviews with a few housing clients. In the case of Centenary Bank, we also reviewed files of clients who had taken out CenteLand loans – a loan product specifically developed for clients interested

in purchasing land – as it offered an additional lens into the relevancy of tenure security.

Using this information, alongside data previously collected in baseline and follow-up surveys of housing microfinance clients within the BAUA project and input received from interviews with bank executives, branch managers and loan officers; a local surveyor firm; and the Buganda Land Board, we assessed the validity of the aforementioned hypotheses. The analysis looked at housing microfinance clients' tenure security and accompanying confidence

A key development of the past couple of years is the digitization of the land registration process and the introduction of ministerial offices at the district level to better serve all citizens.

levels, the demographic distinctions of clients who pursued improved land tenure, and whether the use cases aligned with any of the hypotheses. This analysis, though informed by land sector actors, reflects the perspective and orientation of financial inclusion experts rather than land tenure experts. The conclusions of this report are intended to inform development actors in assessing the relevancy of housing microfinance as a tool for advancing secure tenure. As such, we neither provide a critique of existing land tenure documentation, processes or best practices, nor venture into policy recommendations. We are concerned exclusively with understanding the effect of land tenure on the expansion of housing microfinance.

## Section 1: Overview of Uganda's land tenure system

The land tenure system within Uganda is an agglomeration of national land management policies, the land management policies of the numerous kingdoms within Uganda (Buganda, Bunyoro, Acholi, Busoga, Toro and Nkore/Ankole), and customary land tenure practices.<sup>3</sup> These systems overlap both geographically and in the administration and regulation of these various policies and practices. The communal nature of the tribes native to the region led to deeply ingrained customary systems in which land is often held by families or clans and passed on through generations or potentially through marriage. These practices are collectively referred to as “customary tenure.” This is the system under which the vast majority of Ugandans

operate (as of 2010, 70-80 percent of land in Uganda was held under customary systems, and only 15-20 percent of land was registered).<sup>4</sup>

Colonialism, however, introduced a new approach to land management, in which land was centrally owned by the colonizing Crown. The Crown could distribute rights as it saw fit. As Allan Mugisha, a valuation surveyor and managing partner of SM Cathan, a surveying firm, pointed out to us, the land management system of the colonial powers was introduced to enable efficient planning, and the administration of such parcels even today has resulted in preferable provisioning compared with zones outside of this scope. In the colonial system, land rights also were used as a means to reward loyalty, with one-square-mile plots (or “*mailo* titles”) allocated to nobles or high-ranking dignitaries, who could administer their plots as they deemed appropriate. When Uganda gained its independence, land administration, particularly the issuance of titles, was seen as a tool for municipalities to maintain control over the local people and ensure certain forms of development occurred within the central territory. Similarly, individual land holders have seized upon the opportunity to use titles to maintain long-term control of a parcel of land while gaining economic benefits from its development or occupation via leases.

However straightforward the idea of a centralized land management system may be, Uganda's land management system is anything but. Numerous iterations of land policy, including the introduction, rollback and reintroduction of various forms of tenure, fostered a sense of apathy among the general public toward the ability of the government to provide

security of tenure. In recent years, though, federal authorities have sought to increase coordination on land management processes with several kingdoms in Uganda, regain the public's trust, raise awareness around land tenure policies, and improve the accessibility of the system to the Ugandan people. Federal recognition of the *mailo* titles and of customary land rights has varied over the years since independence, but the current system recognizes both and affords numerous protections for customary tenants. A key development of the past couple of years is the digitization of the land registration process and the introduction of ministerial offices at the district level to better serve all citizens. The process is not without challenges, but improvements in the coordination of the various market actors seems to have opened new opportunities to financial institutions to support formalization of land tenure security.

While there are numerous dimensions to land tenure in Uganda, for the purposes of this analysis, we find it useful to note the distinction between occupancy rights and ownership rights. In Western systems, we associate clear parameters around these two terms. Occupancy rights denote, quite simply, the right to occupy a territory or structure, while development and transfer is permitted only with consent from the owner. Sales remain the exclusive right of the owner. In Uganda, the distinctions are less clear. The Land Act of 1998 tries to balance protecting the historical rights of clans, families and individuals inhabiting land within the customary system and establishing a modern delineation of rights so as to effectively govern development of land and efficiently resolve land disputes.<sup>5</sup> As such, many protections are afforded to customary inhabitants, and policies attempt to recognize the role of the local customary bodies in managing land according to local norms and practices while introducing a base level of registration that enables improved land management and sets forth universal protections for marginalized groups.

Four key forms of land tenure are recognized within Uganda. The first three – freehold title, leasehold title and *mailo* – compose the statutory system. The **freehold title** distinguishes an inheritable, indefinite claim to a parcel of land. It is the highest form of land tenure security and the closest to a Western definition of ownership. The **leasehold title** denotes an inheritable but time-limited claim to a parcel of land, subject to an annual rental fee. Leasehold titles are more common in the urban areas and are allocated with the purpose of supporting specific types of development.

The ***mailo* title** is similar in characteristics to the freehold title, but relates only to land in specific areas of Uganda (primarily the Kingdom of Buganda in central Uganda and the Kingdom of Bunyoro in western Uganda) that the colonial powers allocated to the native kings and nobility of the colonial period in return for political support. Though there have been many iterations in the state's recognition of who holds this land, ownership and administrative rights were eventually relinquished to the relevant kingdom authorities. For the Kingdom of Buganda, administration and oversight of land rights is managed directly by the Buganda Land Board, which acts on behalf of the king (or *Kabaka*) to protect the welfare of the people within his kingdom and administer the land accordingly.<sup>6</sup> Ownership of land is denoted by titles according to the Registration of Titles Act. Today no new titles are issued; only subdivisions of existing titles are permitted as ownership is condensed down into the hands of more people.<sup>7</sup>

*Mailo* title holders may grant rights to occupy and develop the land to tenants in the form of a ***kibanja***, which is subject to an annual rental fee. However, unlike a western rental agreement, the *kibanja* is inheritable and can be transferred within families or sold, subject to approval of the *mailo* title holder. While this seems to place the ultimate rights in the *mailo* title holder's hands, the law defines both lawful occupancy and bona fide occupancy (essentially rights granted based on occupancy as of a certain date or according to a previous ruling).



## Title registration process

The registration process in Uganda comprises many steps and agencies. Processing a title for a claim on a plot of land requires working with seven different land management or tax agencies, not including surveyors and any financing arrangement. The steps in brief are as follows:

- Step 1:** Area Land Committee (a village-level counsel) verifies the validity of the initial request.
- Step 2:** A surveyor is contracted to apportion the land and map boundaries for inclusion in the national cadastral registry.
- Step 3:** District Zonal Office prepares the technical report based on the work of the surveyor/cartographers.
- Step 4:** District Land Board reviews the report and request and determines the appropriate lease type.
- Step 5:** The zonal office provides an offer letter for submission to the Ministry of Lands, Housing & Urban Development, or MLHUD.
- Step 6:** MLHUD's Department of Land Administration either approves or rejects the application.
  - If the application is approved, **fees are paid to the Urban Revenue Authority.**

### For freehold

- The forms are submitted to the Office of Titles for issuance of lease. **DONE**

### For leasehold

- Documents are sent to the Department of Land Registration, or DLR, who issues the lease agreement.
- Lease fee is collected from and stamp fee is paid to Uganda Land Commission /District Land Board.
- Signed/sealed lease agreement is presented to DLR, and photocopies are sent to the Office of Titles. **DONE.**

Challenges within this process include lack of awareness on the part of residents, cost of fees and lack of oversight of surveyors (though our interviewees indicated that this is improving). Additional challenges arise from the burden on district offices to maintain a national mapping plan, which is expensive and cumbersome despite increased guidance from MLHUD, and from lack of accountability from district land boards. These meet infrequently and often lack expertise and incentives to manage requests efficiently.

The final form of land tenure held is **the customary system**. Customary land tenure is determined by local culture and norms and thus varies throughout the country. Those who hold claim to land under the customary system usually have the rights of an owner, though sometimes the use of these rights is subject to the approval of clans or local governing authorities (as determined by the customary system of the region). These claims can be registered or unregistered. The government has attempted to bring these claims into the registry system by offering certificates of occupancy to residents, but few seem to have been issued. According to the Buganda Land Board, the certificates of occupancy are a solution posed for people who cannot afford to acquire a title.

Land agreements are often accepted as validation of land tenure claims after the sale or transfer of land (typically from one family member to another). Land sale agreements are considered a formal acknowledgment of possession, but not as secure as a formal title because they also can be made between two *kibanja* holders.

## Section 2: Understanding housing microfinance client behavior regarding formalization of land tenure security

The first two hypotheses pose contrasting explanations for the receptivity of housing microfinance clients toward land tenure formalization:

- **Hypothesis 1:** Housing microfinance clients are *disincentivized* to formalize land tenure because of an increased claim on property possible through the development of land or construction/improvement of housing.
- **Hypothesis 2:** Housing microfinance clients' *interest* in formalizing tenure security is driven by a desire to secure or protect their investment in land or property.

**Hypothesis 1** suggests that the investment in housing improvement or land development actually strengthens the household's claim to their land or property, thus diminishing perceived value in formalizing land tenure. Testing this hypothesis is particularly challenging, as it could correspond to a real improvement (policies or practices in place to formally validate tenure claims based upon development of land or property) or a perceived improvement in tenure security (households feel more secure with improved housing or developed land, despite maintaining informal or less secure forms of tenure). To assess Hypothesis 1, we explore whether there is a correlation between uptake of housing microfinance loans and increased confidence in tenure security despite the type of land tenure documentation.

**Hypothesis 2** suggests that improvements in land tenure security are driven by a desire to protect investments a household has made in their housing or land through microfinance loans. This hypothesis assumes that weaker or less formal forms of land tenure documentation would correlate to low confidence in or high concern regarding tenure security. We would expect to see clients who reported land rate receipts, letters from local authorities or "other" informal forms of land tenure documentation expressing concern over their lack of tenure security. If validated, this theory suggests that housing microfinance presents a key opportunity for engaging with households to not only provide a financial product or service to improve their housing conditions but also to improve their land tenure security. To test Hypothesis 2, we explore clients' perception of their tenure insecurity in the baseline and whether formalized or more secure forms of land tenure are obtained in conjunction with perception of insecurity and uptake of a housing microfinance loan.

As both hypotheses are predicated on pervasive tenure insecurity in the low-income segment of the housing market, we begin with an assessment of the tenure security documentation of clients before moving to clients' perception of tenure insecurity as a risk and any responses to this risk (whether real or perceived).

### Tenure security documentation held by housing microfinance clients

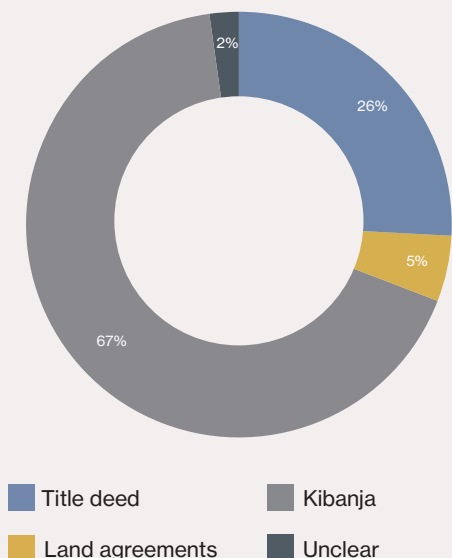
**Housing microfinance clients typically held some form of tenure security, though alternative forms of tenure documentation are more prevalent than titles.** From the client file review, we found that just over a quarter (26 percent) of housing or land clients held formal title deeds. The most frequently referenced tenure documentation was *kibanja* claims (note that some were unregistered). Land agreements were noted in only 5 percent of the client files, while the remaining 2 percent of files were unclear as to the documentation held (if any).

The housing microfinance clients survey revealed similar trends. Only 10.6 percent of clients held titles, and over 80 percent of clients reported land sale agreements at their tenure documentation. Land sale agreements may seem like a significant difference from *kibanjas*, but *kibanjas* can also be transferred or sold, meaning these may represent the same pools of clients. The remaining 8 percent of borrowers surveyed possessed an alternative form of customary tenure documentation, including letters from local authorities (3.5 percent), certificates of occupancy (2.4 percent), or land rate receipts (0.6 percent). The remaining 1.8 percent reported that they possessed inherited land but did not have verification of it.

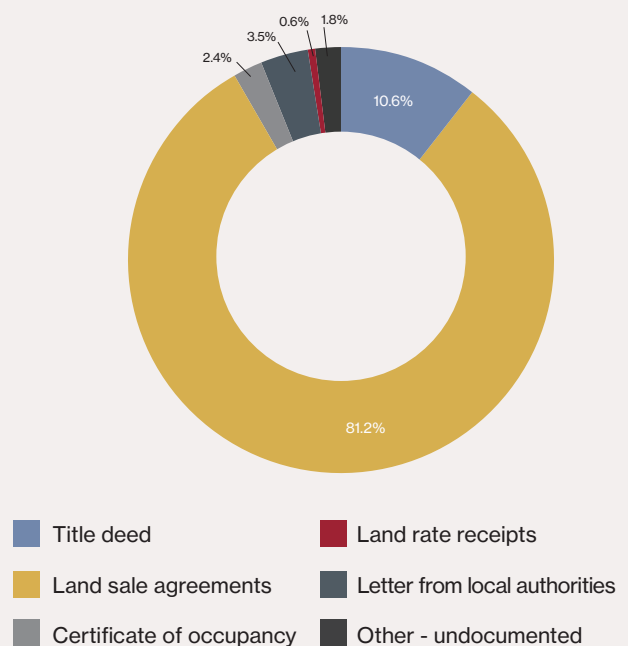
### Regional distinctions in tenure documentation

From the housing microfinance client survey, which covered parts of both Central Uganda and Eastern Uganda, we note that titles appear to be more commonly held in urban areas (Jinja, Iganga, Mukono and Kawempe) than rural areas. This aligns

**Client file review:  
land tenure documentation held**



**Housing microfinance client survey**



with greater centralized planning and competition for development rights of property in urban areas, compared with the prevalence of customary tenure in rural areas. Certificates of occupancy, the government’s proposed means of registering or formalizing customary tenure claims, are reported in only Mukono and Kawempe, so concentrated near Kampala. Letters from authorities were reported at a much higher rate in the Eastern region than in the Central region, while land rate receipts were reported only in Mukono. These distinctions suggest that local market dynamics and regional governance may also factor into the prevalence of and demand for certain types of land tenure documentation. For more details on these findings, see *Appendix 1*.

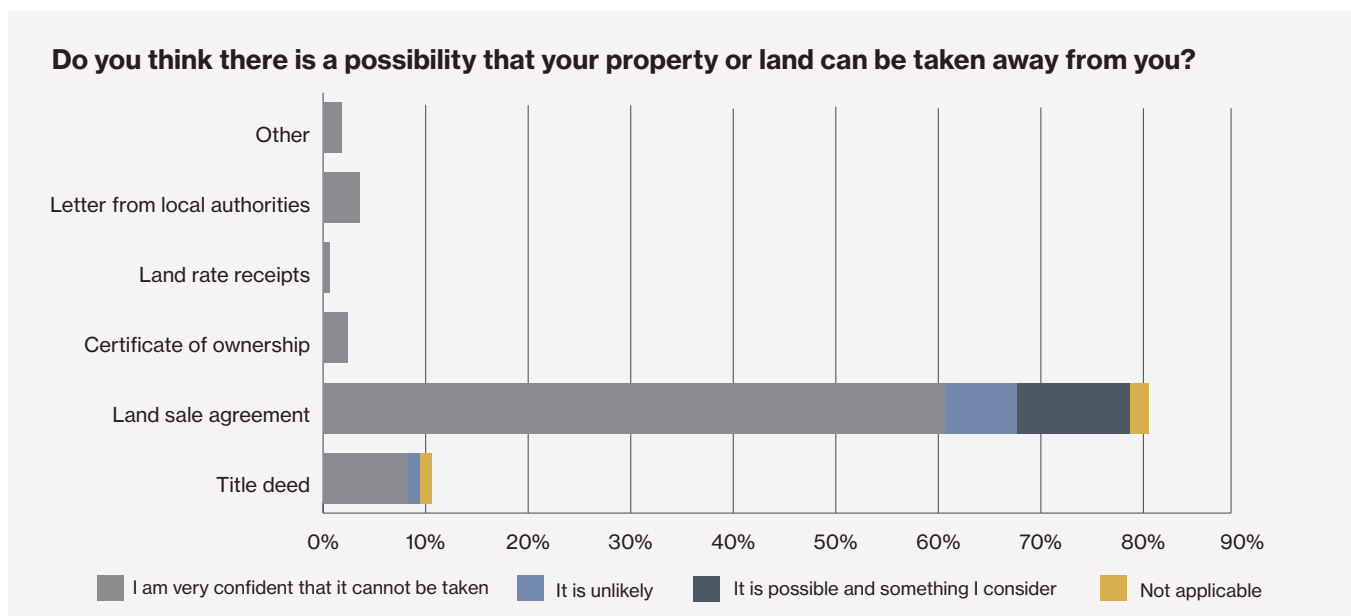
### Perceived change in tenure insecurity among housing microfinance clients

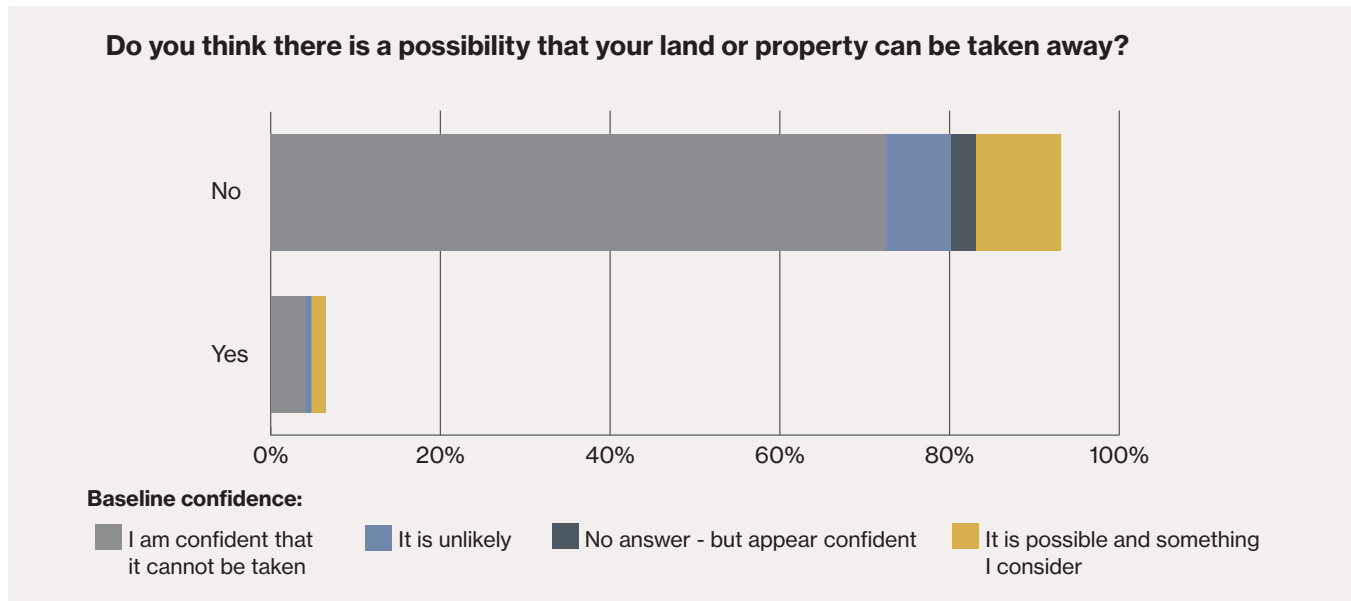
#### BASELINE CONFIDENCE INTERVALS

In the baseline survey of housing microfinance clients, despite the predominance of alternative forms of tenure documentation, **roughly 88 percent of participants indicated high confidence in their tenure security**. This comprises those who reported that they

were very confident that their land or property could not be taken away (77 percent), those who thought it was unlikely (8 percent), and those who didn’t answer the question but also appeared confident in their tenure security based on their tenure documentation (title or land sale agreements) and responses to other clarifying questions (3 percent).

The remaining 12 percent of clients surveyed indicated that the loss of their land or property was possible and something that concerned them. All of these clients held land sale agreements, but their reasons for concern varied. Sixty percent (7.1 percent of all survey participants) explained that their concern was related to possessing a land sale agreement. Fifteen percent (1.8 percent of total respondents) explained that their concern was based upon lack of title, and 10 percent (1.2 percent of survey respondents) expressed concern with the unregistered status of *Kabaka* land. **This means that less than 3 percent of survey participants expressed concerns related to lack of title or registration, and roughly 10 percent expressed some concern over tenure insecurity.** The remaining 15 percent indicated that their concern was related to potential payment performance issues (1.8 percent of total survey respondents).





Contrary to the assumptions underlying the hypotheses, we find that even the households with informal or alternative forms of land tenure documentation indicate high levels of confidence in their tenure security. This widespread confidence in the customary tenure system results in minimal levels of perceived tenure insecurity among low-income households regardless of tenure documentation.

**FOLLOW-UP CONFIDENCE INTERVALS**

The follow-up survey afforded clients less description in their confidence levels, as they could answer only yes or no to whether they felt there was a possibility of their land or property being taken away. With 93.5 percent indicating that they did not think there was a possibility their land or property could be taken away, the follow-up survey results appear to indicate a higher level of confidence relative to the baseline survey (88 percent). However, the changes in sentiment reflect multiple shifts rather than a clear shift from perceived tenure insecurity to perceived tenure security. In fact, the change in confidence levels reflects a 10 percent increase in tenure security and a 4.7 percent decline in tenure security, for a net improvement in the perception of tenure security for only 5.5 percent of clients (see graph above).

Roughly 65 percent of those who reflected increased confidence in the follow-up survey indicated that their confidence was related to tenure documentation, either “possessing the right documents,” holding a land sale agreement or holding a title, but these did not correspond to real changes in tenure security documentation. About a quarter of clients indicated confidence due to positive payment performance, while the remaining 10 percent did not provide any further clarification as to why they felt confident in their tenure security.

**LAND POLICY IMPLICATIONS**

With customary land systems prevalent in Uganda, the Land Act of 1998 affirms the legitimacy of these systems while affording certain protections for marginalized groups, particularly women and children. The Land Act also defines “bona fide” occupants of customary land as those who have occupied or developed land unchallenged by the registered owner (or his or her agent) for at least 12 years. From a regulatory standpoint, this is the only legitimate way an occupant could indirectly “improve” his or her land tenure security, but the claim is based upon length of occupation, not on development or investment in the property.

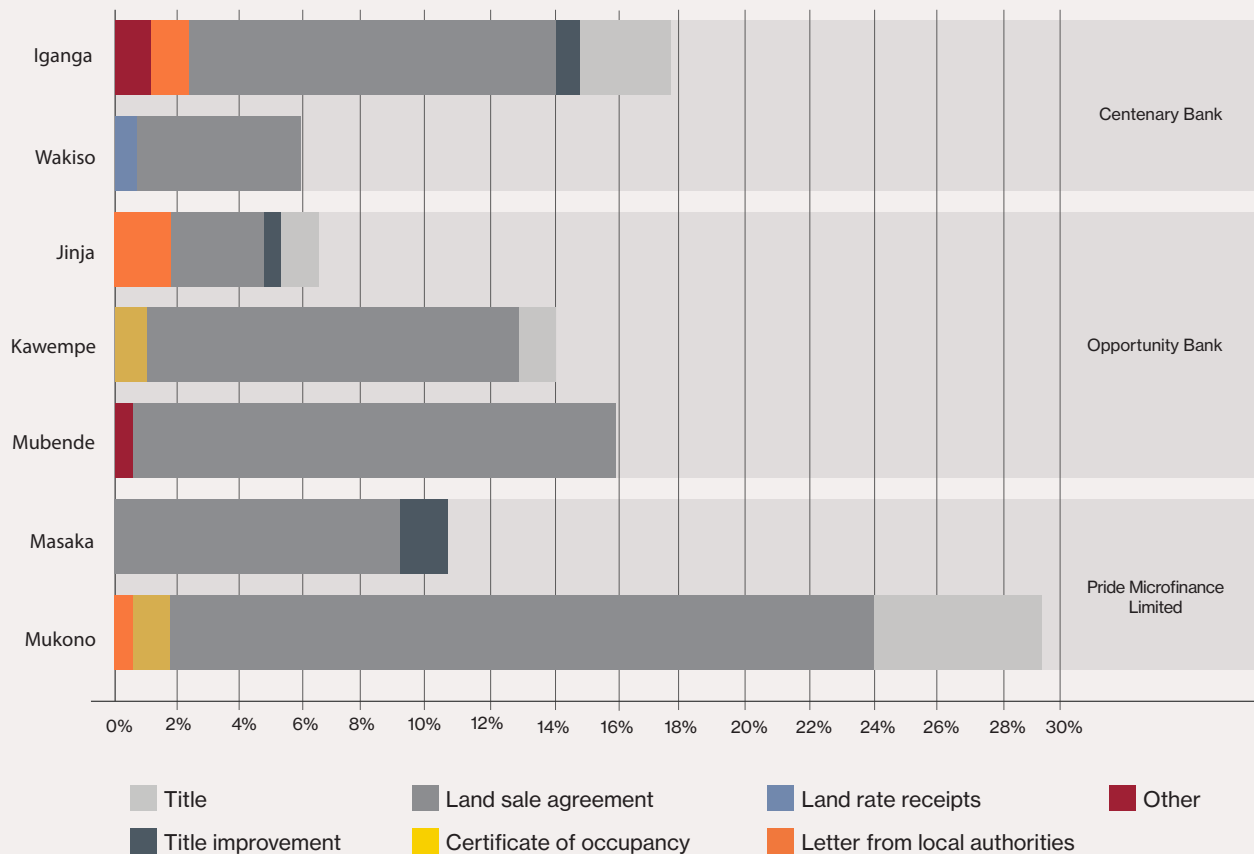
Based on additional commentary provided by survey respondents, the increased confidence appears to be a result of the difference in perception when clients were given a range of confidence intervals versus binary options of yes or no.

Among those who indicated a decline in confidence (4.7 percent, or eight clients), three clients provided further clarification indicating confidence in their tenure security, and another three expressed that their concerns were related to payment performance. One of the remaining clients indicated concern related to selling the property in the future, and the other indicated that loss of the property already had been experienced.

### Assessing Hypothesis 1: Client disinterest in formalizing tenure security is caused by investment in improvements to housing or land

Hypothesis 1 surmises that housing microfinance clients believe improving their housing or developing their land increases their tenure security, disincentivizing investment in formalizing land tenure. In our conversations with staff members of the financial institutions and the survey firm, we learned adverse possession is possible: Development of one's property can strengthen one's claim to the land on which he or she resides. However, the very limited cases of perceived tenure insecurity in the baseline survey of

**Housing microfinance client survey: Tenure documentation reported at follow-up**



housing microfinance clients invalidates the relevancy of this to microfinance as suggested by Hypothesis 1. In fact, where change in perceived tenure security confidence was observed, it appeared to reflect either a change in the clients' interpretation of the question or feelings around repayment performance (both positive and negative).

## Real change in tenure insecurity among housing microfinance clients

To assess Hypothesis 1 through client behavior, we need to understand whether perceptions of tenure insecurity correspond to a real change in the tenure documentation held by households alongside their housing microfinance loan. This hypothesis does not prescribe importance to a particular level of tenure,

but rather focuses on whether there is a notable shift from one form of tenure to another in conjunction with initial insecurity and uptake of a housing microfinance loan. A change or improvement may reflect a move from informal to formal tenure security documentation or from unregistered to registered customary claims on land.

**Less than 5 percent (eight clients) indicated a real change in their land tenure documentation.** Seven of these clients reported land sale agreements as their initial tenure security documentation. For four, the tenure improvement reflected acquisition of a formal title.<sup>8</sup> The improved documentation was unclear for the other three, as they listed the same tenure documentation in the follow-up survey as in the baseline survey. For the eighth client, the change was more unique in that the client initially reported holding

### Centenary Bank client:

## Vincent

**Location: Mukono**



Vincent and his wife reside in Mukono. He owns his own clinic and earns around 2.5 million Ugandan shillings (about US\$670) a month. He and his wife are looking forward to soon moving

into the new home they have built. Vincent took out a CenteHome loan for the construction of their new residence, totaling 20 million Uganda shillings (about US\$5,300). This was his first loan with Centenary, but he had saved 15 million Uganda shillings (about US\$4,230) to go into the house as well.

At present, the foundation, walls, roof and finishing are about complete. Vincent and his

wife plan to install plumbing and electricity as well. He is still determining whether to do so independently or in partnership with his neighbor. He decided to do a standard hookup to the electric grid because the more expensive appliances required to use solar power would offset any cost savings.

He holds a *mailo* title to the property, but when asked whether that was important to him, he said that the type of title was irrelevant to their decision to purchase that property. Rather, he and his wife fell in love with the location on the side of a hill overlooking a beautiful, lush forest, and felt the price was fair. They would have purchased it even if the land tenure documentation were *kibanja*, he says.

Vincent and his wife are looking forward to hosting family and friends in their new home. They value having a place to call their own and intend to use the income that was going toward rent to prepare for starting a family of their own.

a title and then indicated a certificate of occupancy in the follow-up survey. It could be that the certificate of occupancy was obtained for a different parcel of land than the title, but this is unclear from the information obtained in the survey.

### Assessing Hypothesis 2: Housing microfinance clients' interest in formalizing tenure security is driven by a desire to secure their investment in land or property

Cross-analyzing the perceived and real changes in tenure security observed in the client surveys, we find that **none of those who indicated an increase in confidence (or perceived tenure security) reported a real improvement in their tenure security.**

Additionally, those who did report an improvement in land tenure documentation indicated the highest level of confidence in their land tenure security in the baseline survey, meaning that **securing their investment was likely not the driving factor in formalizing or strengthening their land tenure security.** The reported property loss of one client who indicated pursuit of improved tenure also highlights that formalization of land tenure is not a foolproof guarantee of the resident's tenure.

We could not assess from the client file reviews whether clients experienced any change in perceived tenure insecurity, but we were able to review the files for any evidence of an improvement in land tenure security in conjunction with a housing or land microfinance loan. Of the 78 client profiles reviewed, **6.4 percent (five files, all housing microfinance clients) reflected some improvement in tenure security.**<sup>9</sup> Of these, one indicated the improvement was the registration of a *kibanja*, while the rest reflected formalization of titles. Two were moving from *kibanja* to leasehold titles and appeared to be in process. The remaining two files indicated titling was compulsory as part of the requested loan, though the titling status was unclear. These findings align

with those from the survey, indicating that very few housing microfinance clients are actually improving land tenure security in conjunction with their housing microfinance loans.

## Section 3: Understanding financial service providers' responses to land tenure security

While hypotheses 1 and 2 pose explanations for the behavior of housing microfinance clients regarding land tenure security, Hypothesis 3 seeks to address the response of financial service providers to land tenure security concerns. Hypothesis 3 surmises that unfamiliarity with various forms of land tenure – or a limited capacity to evaluate their legitimacy – leads financial institutions to neglect the potential market opportunity for home improvement loans not backed by mortgages. This hypothesis suggests that microfinance institutions may limit housing loans only to clients with formal titles, whereas a much larger and potentially valid market segment exists if they permit housing microfinance loans to households with less formal tenure claims.

### Assessing Hypothesis 3: Tenure insecurity as a constraint to financial service provider lending for housing

Our observations, as advisers to financial service providers on the development of housing microfinance products, have demonstrated that **land tenure is not the prohibitive factor it has been assumed to be.** This assumption streams from two trains of thought: First, that sustainable microfinance must be income-generating, and second, that housing loans must be mortgage-backed. The income generation concept relates back to the origins of microfinance in extending financial services to microentrepreneurs. As the industry's understanding of the needs and capacities of



low-income households has developed, new financial products and services have been introduced that meet the consumption needs of borrowers for education, health and consumer goods.

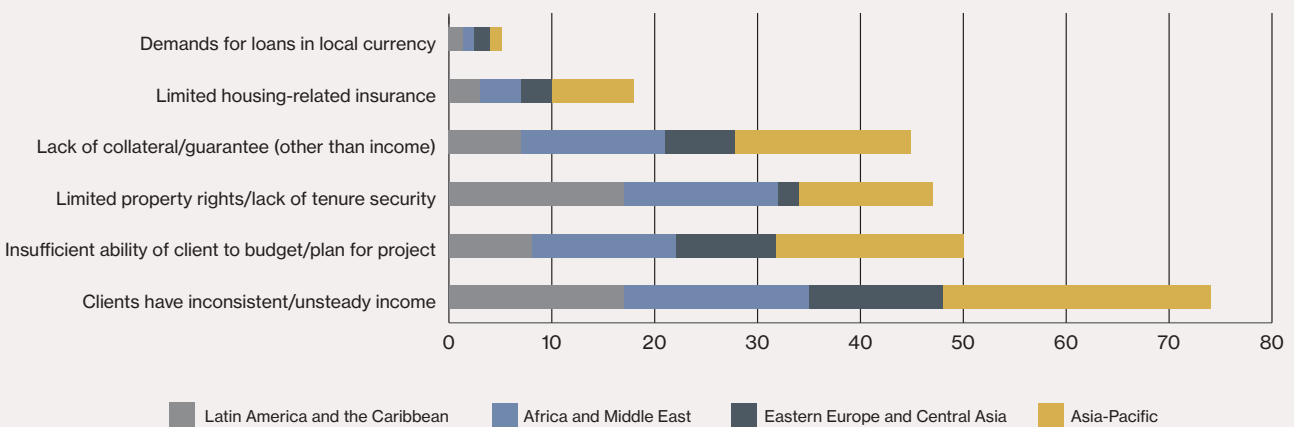
This highlights another key insight: Financial capacity is not based solely on current assets or income, but on the trade-off of potential risks and returns. A micro-entrepreneur’s repayment capacity is based upon current income and expected income based on the planned investment activity, with collateral or guarantees offsetting the risk and affecting the interest rate. Similarly, a households’ repayment capacity for a housing microfinance loan is determined heavily by the household’s income (as opposed to individual incomes) and the type of housing improvement proposed. When the housing finance process is aligned with the incremental improvement process used by most households in the developing world, the risk and return equation does not require a mortgage as collateral.

With a variety of formal and informal tenure documentation held by housing microfinance clients, possession of a formal title does not appear to have been a prohibi-

tive factor to housing microfinance lending for the institutions with whom we worked as part of the BAUA project. We note the high number of *kibanjas* observed in the client file review and the registration of previously unregistered *kibanjas*, indicating a base level of tenure security may be required. The type of tenure documentation held may affect interest rates or determine limits to borrowing capacity, but in Uganda, where informal and formal alternatives to tenure documentation are widely accepted, lack of title poses little limitation to housing microfinance lending. Even more broadly, understanding of the range of valid tenure security documentation does not appear to be a key constraint in the willingness of financial service providers in Uganda to lend for housing purposes.

This corresponds to our observations of the broader industry, in which we have found that many financial service providers demonstrate a receptivity to lending to clients with a variety of alternative and informal forms of tenure documentation. Though lack of tenure documentation is the most frequently cited constraint to scaling up the product, the highest perceived risk is inconsistent income of potential clients.

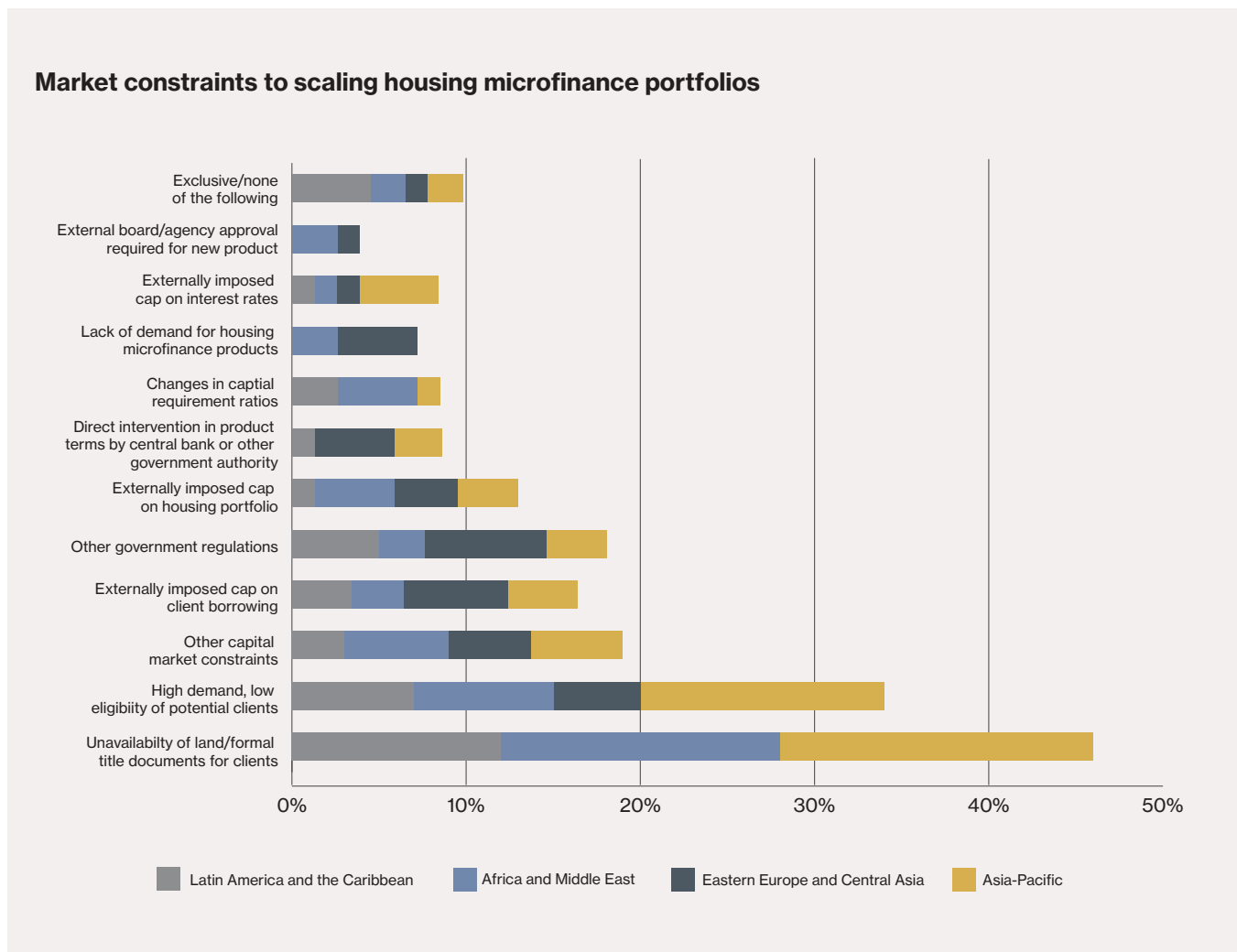
**Perceived risks in issuing housing microfinance loans**



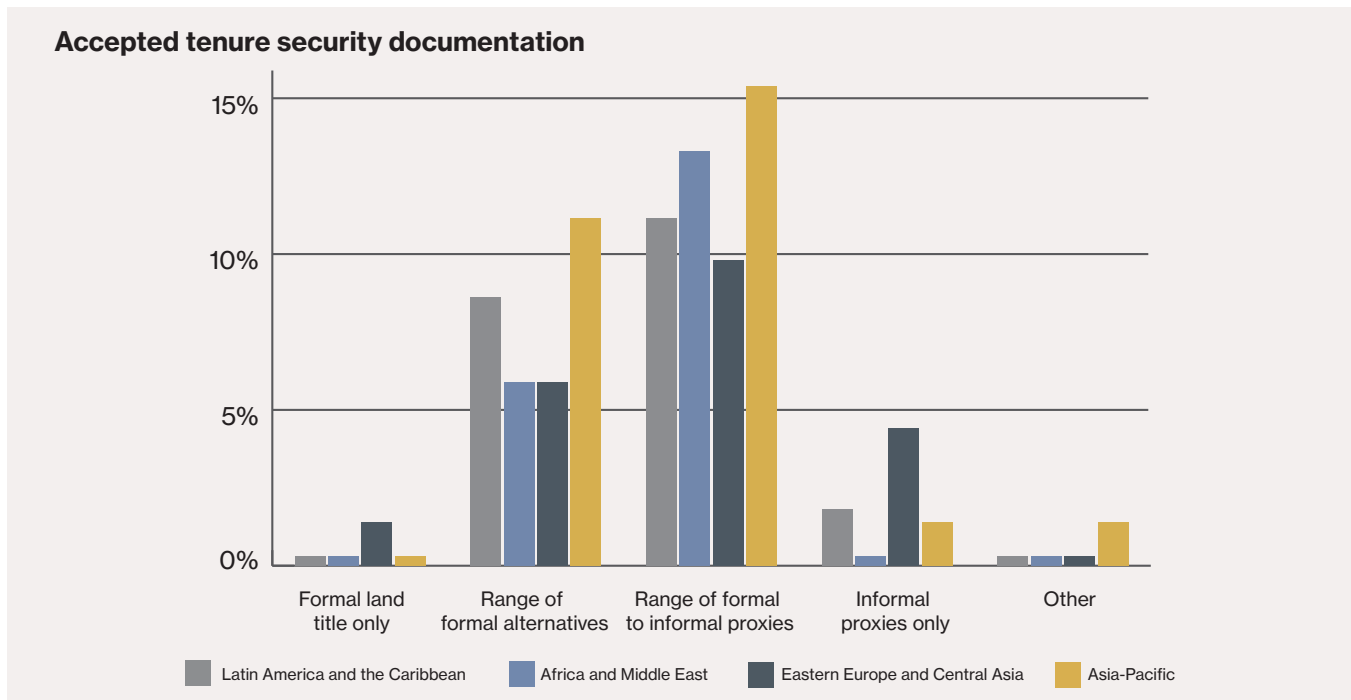
Source: Prieto, S., and E. Simmons. 2017. *The 2016-17 State of Housing Microfinance: Understanding the Business Case of Housing Microfinance*. Habitat for Humanity International: Terwilliger Center for Innovation in Shelter. Atlanta, Georgia. [www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf](http://www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf).

To control risk when introducing a new housing microfinance product, some institutions will initially offer the product to their existing client base, thereby controlling based on demonstrated client repayment capacity, and rolling it out to new clients only after having some demonstrated success in the product performance.<sup>11</sup> This enables the institution time to refine the product features before rolling out to new clients.

It appears that the prevailing constraint is not a lack of understanding of valid tenure documentation types, but rather uncertainty as to the appropriate product features to integrate based on the types of home improvements demanded. When this is appropriately assessed within the product development process, institutions are able to realize sustainable, scalable demand for housing microfinance products.



Source: Prieto, S., and E. Simmons. 2017. *The 2016-17 State of Housing Microfinance: Understanding the Business Case of Housing Microfinance*. Habitat for Humanity International: Terwilliger Center for Innovation in Shelter. Atlanta, Georgia. [www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf](http://www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf).



Source: Prieto, S., and E. Simmons. 2017. *The 2016-17 State of Housing Microfinance: Understanding the Business Case of Housing Microfinance*. Habitat for Humanity International: Terwilliger Center for Innovation in Shelter. Atlanta, Georgia. [www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf](http://www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf).

**Centenary Bank client:**

**Eva**

**Location: Mukono**



Eva, a single mother and school teacher, has taken out both a CenteLand and a CenteHome loan to pursue her vision of a place with adequate space for her bustling family. Though two of her three daughters are grown, a couple of children from the school also live with her in the

tiny apartment provided by the school. She knows the residency is contingent on her employment

there, and she worked with Centenary Bank to purchase the plot of land where she is constructing a permanent home for her family.

She purchased the land in 2009 and applied for and obtained formal title alongside the loan process in order to access the necessary funding. In 2016, she took out a 30 million Uganda shilling (about US\$7,850) CenteHome loan, which she received in two tranches, to start the construction process, including laying the foundation, raising the walls and adding the roof. She paid off the loan using her salary (1 million Uganda shillings or about US\$260 per month), personal savings and income from renting out an extra room in her apartment.

The modest brick structure is surrounded by ample land and fruit trees. Eva led us around her property



and pointed out the parcel she intends to buy next. Once the house is complete and they are able to move in, she envisions purchasing this neighboring land and building her own day school. Her immediate steps, though, are concentrated on adding the plumbing to the house and finishing the plastering. The last payment on her current loan is expected in December 2019.

She stressed the importance of budget planning before construction. She was skeptical about the loan amount, thinking the construction would cost less, but she has since found the amount to be accurate. Eva monitored the construction progress carefully and brought in someone else to help her review the quality of work being done.

## Relevancy of tenure security to housing microfinance

Although offering housing microfinance loans does not appear to be a key factor in driving demand for land tenure formalization, this does not preclude the relevancy of formalization of land tenure for a financial service provider. Integrating support for formalization of land tenure alongside a housing microfinance loan can be an effective strategy for a financial institution to increase a client's borrowing capacity, offset risk and make housing microfinance more

sustainable; to serve certain previously excluded sub-segments of clients; or to address a systemic barrier to adequate, affordable housing faced by low-income households. To improve product performance or to access additional markets, a financial institution may choose to introduce financial or nonfinancial support for formalizing land tenure claims. Additionally, in markets where demand for land formalization or land titling does exist, there may be potential to develop financial products specifically for this purpose.

### Buganda Land Board's Land Title Access Financing Initiative

Land within the Buganda Kingdom (which covers much of Central Uganda) is administered on behalf of the *Kabaka* (or king) by the Buganda Land Board. The majority of residents in Buganda are considered tenants on the *Kabaka's* land. About 70 percent of residents are estimated to be living on unregistered land, based on information provided in interviews with Buganda Land Board as part of this research. In order to protect the residents from abuse of land rights or manipulation regarding tenure, the kingdom issues leasehold titles to approved residents. These titles, however, require a fee, which proved prohibitive at the beginning of the initiative.

To address this challenge, the Buganda Land Board started in 2008 to establish partnerships with financial service providers to enhance efforts on educating residents and to establish an agreement that would unlock capital for residents and increase the efficiency and approval process. Centenary Bank was the first financial institution with whom the land board partnered, and today 16 financial institutions are on board.

To apply, tenants must have some evidence of tenancy (which can include neighbors' confirmation), have income sufficient to cover loan, and have or be

willing to open an account at one of the banks. The land board establishes the residency right of tenants and informs the respective financial institution of the expected costs. The bank will assess the resident's creditworthiness and notify the land board as to whether the client is approved for the loan. If the client is approved, the land board will proceed with processing the title. The bank will extend credit to the residents for developing their land even while the title is still in process, and will hold the title as a guarantee until the loan is paid off. The average processing time is six months.

Though both the land board and financial institutions spoke positively about the partnership, challenges arise in coordinating urban planning of Kampala with MLHUD, in infrastructure gaps (such as nonexistent access roads), in reliance on third parties for surveying/mapping, and in disputes over land. This last issue, along with delays in information provided by the federal government, can significantly slow the process. Both Opportunity and Centenary graduate clients throughout the process based on steps completed; this helps to reduce delays felt by the client. Additionally, some parcels of land are too small to issue a title for and instead may be eligible for a certificate of occupancy. In our interviews with the Buganda Land Board, they stated that as of April 2018, approximately 460 titles had been issued and an additional 890 or so were in process.

## In summary

With high levels of confidence in tenure security expressed by the majority of housing microfinance clients surveyed, the data fail to validate either Hypothesis 1 or Hypothesis 2 regarding the relationship between tenure security and client uptake of housing microfinance loans. Additionally, the institutions with which we worked accept a range of informal and alternative forms of tenure security and do not reflect a lack of formal land titles among housing microfinance borrowers as a key constraint to expanding the provision and impact of housing finance. Rather, we find that client land tenure is only one factor within the housing microfinance loan eligibility process. Both Opportunity and Centenary Bank demonstrate that formalization of tenure security can play a role in serving specific market segments, whether expanding clients' borrowing capacity or reaching new market segments.

Housing microfinance does not appear to be a strong driver of demand in Uganda for improved tenure security. Neither does a lack of formal titles appear to prohibit the uptake of housing microfinance loans. However, the Ugandan case does demonstrate the potential expansion of housing microfinance portfolios that can be achieved by incorporating tenure formalization into the housing microfinance process. By including education and guidance on the land titling process and establishing effective partnerships with other key actors in the titling process, an institution can add value to its housing and land loan products for its clients. For organizations deeply oriented toward supporting the growth of low-income clients, this perspective is not unusual and demonstrates a keen ability to address the needs of respective client bases. Any effort to introduce these components should be adapted for regional context (recall that the various regions of Uganda are governed by different land administration bodies) and to align with the capacity of and value added for the institution itself.

## Appendix 1: Data composition

Within this assessment, we were able to analyze the land tenure claims of housing microfinance clients against two different data sets: baseline and follow-up surveys conducted as a part of the encompassing Building Assets, Unlocking Access project (n=170) and review of housing clients' files from Centenary Bank, Pride Microfinance and Opportunity Bank (n=78). We were able to conduct six client interviews, visiting homes built or improved via housing microfinance loans and talking to clients about their goals, the improvements made, and the relevancy of land tenure in their decision-making process. The following section provides an overview of the demographics of the client segment analyzed.

### Regional composition

#### HOUSING MICROFINANCE CLIENT SURVEY

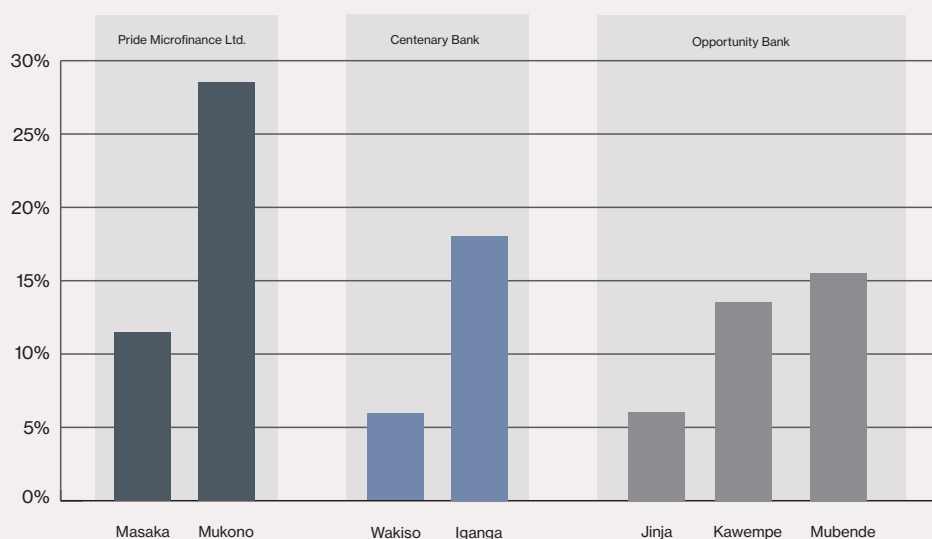
Just over three-fourths of housing microfinance clients surveyed were from Central Uganda, including Mubende, Masaka, Wakiso, Kampala (with Kawempe appearing as a notable subregion) and Mukono.<sup>12</sup> The remaining quarter were from Iganga and Jinja in

Eastern Uganda. Centenary Bank respondents were primarily from Iganga (75 percent), with another quarter from Wakiso (25 percent). Opportunity Bank's clients were mostly from Mubende (43.6 percent) and Kawempe (38.7 percent), with just under 20 percent from Jinja. Pride clients were mostly from Mukono (73.5 percent), with just over a quarter hailing from Masaka.

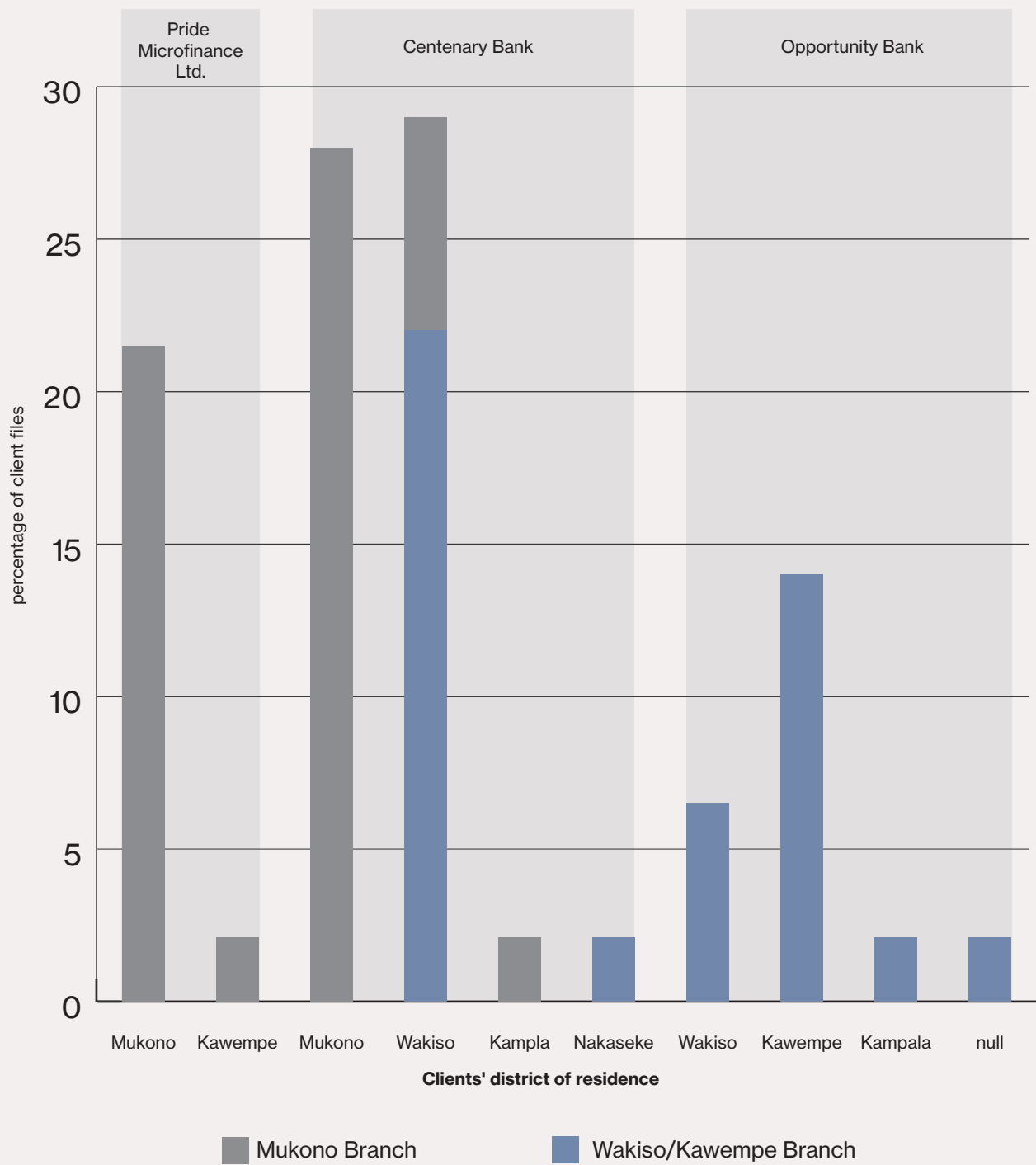
#### CLIENT FILE REVIEWS

The review of client files was concentrated in the Central region and conducted in the participating institutions' branch offices in Mukono and Wakiso (which includes Kawempe). The dispersion is slightly skewed toward Mukono (54.1 percent of clients) versus in Wakiso (44.9 percent). The analysis of the housing microfinance survey results was limited to the branch location, but in the analysis of client files we were able to use both branch and clients' residential addresses. The distribution of clients based on residential addresses demonstrated a similar skew toward the region of Mukono (48.7 percent), though not as sharply as indicated by branch selection. Only a third of clients reported addresses actually in Wakiso, while 15.4 percent of client files indicated a residence in Kawempe (this district of Kampala is surrounded by Wakiso district, so clients seem to have opted for that

Housing microfinance client survey: Regional distribution



**Client file review: Regional dispersion**





## Housing microfinance client survey: Tenure documentation by branch

| Bank name               | Branch  | Title deed | Land sale agreement | Certificate of occupancy | Land rate receipts | Letter from local authorities | Other |
|-------------------------|---------|------------|---------------------|--------------------------|--------------------|-------------------------------|-------|
| Centenary Bank          | Iganga  | 16.7%      | 70%                 |                          |                    | 6.7%                          | 6.7%  |
|                         | Wakiso  |            | 90%                 |                          | 10%                |                               |       |
| Opportunity Bank        | Jinja   | 18.2%      | 54.6%               |                          |                    | 27.3%                         |       |
|                         | Kawempe | 8.3%       | 83.3%               | 8.3%                     |                    |                               |       |
|                         | Mubende |            | 96.3%               |                          |                    |                               | 3.7%  |
| Pride Microfinance Ltd. | Masaka  |            | 100%                |                          |                    |                               |       |
|                         | Mukono  | 18%        | 76%                 | 4%                       |                    | 2%                            |       |

branch versus a more central Kampala location). A mere 2.6 percent listed residencies in Kampala; 1.3 percent were located in Naseke, and the remaining 1.3 percent didn't provide a clear address.

## Tenure documentation by region

### HOUSING MICROFINANCE CLIENT SURVEY

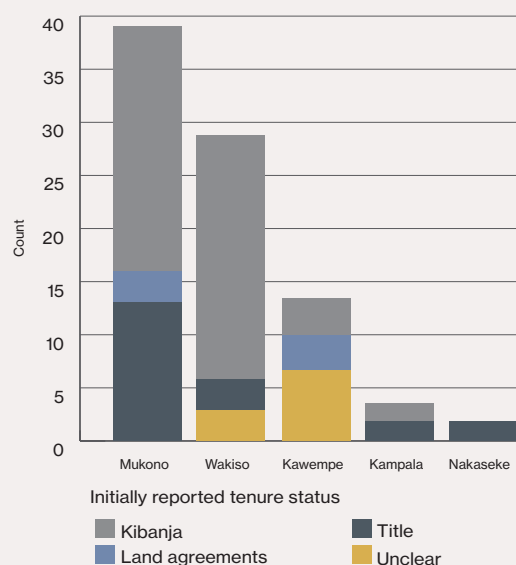
We find the percentage of clients holding titles is actually higher in the East region than in the Central region. However, the East region included only clients from Jinja and Iganga, while the Central region included Kampala and two regions surrounding it (Mukono and Wakiso), along with a few more rural regions, making for a more diverse client composition in terms of urban, peri-urban and rural representation. Unsurprisingly, none of the clients from the rural districts reported holding land titles.<sup>13</sup> Looking at the district level, the percentage of clients holding titles is fairly similar across Iganga, Jinja and Mukono. Kawempe, an administrative region within Kampala, has a lower percentage of housing clients reporting titles, but the highest percentage of clients reporting certificates of occupancy (which interestingly are reported only by clients in or near Kampala and Mukono).

### CLIENT FILE REVIEWS

Based on the client files reviewed, we find again that about a third of clients in Mukono held titles (or 18.0 percent of the total), and roughly 17 percent of client files in Wakiso (about 8 percent of the total)

held titles. We do not observe the use of alternative forms of tenure security claims (land rate receipts, letters from local authorities, etc.) in the client file reviews. This sample was a small percentage of clients in Mukono and Wakiso but seems to confirm that these alternative forms are more common outside of the Central region (though it must be noted that the client files reviewed were all from either Mukono, Kawempe or Wakiso branches). Titles seem to be far less common in the rural areas of Mubende and Masaka, and are most common in areas central or close to Kampala.

### Client file review: Tenure documentation by district



## End notes

<sup>1</sup> Byamugisha, Frank F.K. 2013. *Securing Africa's Land for Shared Prosperity: A Program to Scale Up Reforms and Investments*. Africa Development Forum series. Washington, D.C.: World Bank. doi: 10.1596/978-0-8213-9810-4. License: Creative Commons Attribution CC BY 3.0. <http://documents.worldbank.org/curated/en/732661468191967924/pdf/780850PU-BOEPI00LIC00pubdate05024013.pdf>.

<sup>2</sup> Stickney, Christy. 2018. *Building the Business Case for Housing Microfinance (in Sub-Saharan Africa)*. Habitat for Humanity International: Terwilliger Center for Innovation in Shelter. Atlanta, Georgia. [www.habitat.org/sites/default/files/documents/The-Business-Case-for-Housing-Microfinance-SSA.pdf](http://www.habitat.org/sites/default/files/documents/The-Business-Case-for-Housing-Microfinance-SSA.pdf).

<sup>3</sup> IRIN. 2009. "A Rough Guide to the Country's Kingdoms." September 2009. Nairobi. Accessed July 19, 2018. <http://www.irinnews.org/report/86107/uganda-rough-guide-countrys-kingdoms>.

<sup>4</sup> USAID. 2010. "Country Profile: Uganda." U.S. Agency for International Development: LandLinks. Washington, D.C. August 2010. Accessed Aug. 20, 2018. <https://land-links.org/country-profile/uganda/>.

<sup>5</sup> Land Act (Cap 227). 1998. Office of the Prime Minister, Uganda. <http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/97678/116027/F2126230681/UGA97678.pdf>.

<sup>6</sup> Per conversation with the Buganda Land Board (April 2018).

<sup>7</sup> Ecoland Property Services. 2017. "Types of Land Tenure Systems in Uganda - Land Ownership in Uganda." Kampala, Uganda. [www.ecoland-property.com/types-of-land-tenure-systems-in-uganda/](http://www.ecoland-property.com/types-of-land-tenure-systems-in-uganda/).

<sup>8</sup> Two were in process, and two had completed the titling process at the time of the survey.

<sup>9</sup> One additional file demonstrated a transfer of title in conjunction with a land purchase loan (Centeland). In this scenario, though the change may indeed be positive for the borrower, the tenure of the client didn't necessarily improve, so we have excluded it from our analysis of those indicating tenure security improvement.

<sup>10</sup> Prieto, S., and E. Simmons. 2017. *The 2016-17 State of Housing Microfinance: Understanding the Business Case of Housing Microfinance*. Habitat for Humanity International: Terwilliger Center for Innovation in Shelter. Atlanta, Georgia. [www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf](http://www.habitat.org/sites/default/files/documents/The-2016-17-State-of-Housing-Microfinance-Understanding-the-Business-Case-for-Housing-Microfinance.pdf).

<sup>11</sup> Ibid.

<sup>12</sup> Note that the regions in the survey analysis reflect the branch used by clients, as this was more consistently reported than the client's home address.

<sup>13</sup> The one client in Mubende who indicated "other" does clarify that a title is held, but under the family.





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