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Implication of Land Regularization in Accessing Credits from Financial Institutions in Tanzania

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Abstract

A linkage between land regularization and access to credit has been a policy priority in developing countries including Tanzania. However, formal credit markets in these countries are underdeveloped and expectations that land titling through land regularization improves access to credit are muted. A study to examine the implication of land regularization in accessing credit from formal financial institutions in Tanzania was carried out in two areas of Kimara and Buhongwa Wards in cities of Dar es salaam and Mwanza respectively. Data were collected through household questionnaire survey and key informant interviews. A total of 450 respondents were involved in this study. The regression model was used to estimate credit access from financial institutions. Findings observed insignificant implication to credit access mainly because most land owners with certificate of right occupancy had no enabling environment to link legally documented plots with the formal financial institutions to support household activation of investment on land. We also found that land owners issued with certificate of right of occupancy felt that, lack of collateral was a major stumbling block for formal credit access. We conclude that there is a need to restructure the financial plans to get coordinated and/or integrated with plans to regularize land and structure strategies to mitigate risks from households and/or firms and financial institutions to enhance household to access formal credits and activation of investments on land in regularized areas.

Keywords

Land Regularization, Formal Title, Formal Financial Institutions, Credit Access, Tanzania

1. Introduction

Land regularization has been a policy priority for governments in developing countries. Proponent of land regularization such as (e.g. Feder et al., 1988; De Soto, 2000; Gilbert, 2002; Castro, 2011; Collier, 2017; USAID, 2021; Feyertag et al., 2021) argues that the ultimate advantage of land regularization is the increase in economic opportunities that can support a household not only activating the dead capital for investment, but also the title provided by legal institutions can reduce financial exclusion to poor population, increase the possibilities for land owners to access credits from formal lending institutions by using land titles as collateral. Furthermore, Selod and Durand-Lasserve (2007) and Fernandes (2011) add that formal land title encompasses positive impacts; it can support increased property values, employment, labor mobility, and tax revenue collection.

To maximize the benefits of land, developing countries, like Peru and Mexico in Latin America and Rwanda, Kenya, Zimbabwe, Ghana, Ethiopia, Zambia and Tanzania in Africa, embarked on land reform programs through redistribution and/or regularization (Kaswamila, 2006; Bravo, 2011; Briggs, 2011; Mlowe & Urassa, 2018; Schmidt & Zakayo, 2018; Ayonga, 2021; Dachaga & de Vries, 2022). From implementation process, contradicting views have evolved (USAID, 2021). Scholars such as Kessy (2005), Sheuya (2007), Wekesa et al. (2011), Sheuya and Burra (2016), Vestbro (2008, 2013), Lotto (2018), Mlowe and Urassa (2018), USAID (2021), Panman (2021), Panman and Gracia (2022) and Mwankemwa and Mlamka (2022) argue that, in low-income and intermediate countries, credit market is underdeveloped. The expectation that titling through land regularization can improve access to credit is doubtful. In most cases, the existed formal financial sector filters out the low-income segment of population from access to its products due to perceived high risks and low returns.

The above cited scholars further stress that the financial sector perceives risks of nonpayment, delinquency, and default, because household savings in the named segments of population are often small or non-existent and incomes are irregular. Financial sector also perceives low returns because of the low relative property values and long payback horizons which increases the administration cost. To increase inclusion of the poor household in the formal financial services, scholars such as Deininger and Chamorro (2002), Vestbro (2008, 2013) and USAID (2021) emphasize on critical analysis of implementation of land regularization and the general policy reform in developing countries to rescue poor people from being excluded in the financial sector.

Tanzania is one of the developing countries that since 1990's has been implementing land reforms and structural financial sector reforms to accommodate the excluded population in the sectors. The process of restructuring systems and institutions to include policies, laws and regulations to support the shift from command economy/socialist economy to a market-based started in the mid of 1980s, with its turning point in the 1990's following the liberalization of financial sector as a way of complementing the economic reforms (URT, 2011; Montiel et al., 2012; Balele et al., 2018; Mwankemwa & Mlamka, 2022). Therefore, the number of policies together with registrations has been formulated and regulated to guide the implementation toward the achievement of the desired goals and objectives. In this context, land regularization has been implemented as an initiative to enhance household/firm's access to credit from formal financial institutions to activate investment on land.

Among the policies and regulations formulated include the Land policy, Land Act and the Urban Planning Act (URT, 1997, 1999, 2007). The policy and Acts allow land regularization to be implemented to bring informal settlements within formal administrative system of land management through issuance of formal land title to land owners. The miscellaneous Amendments No. 1 of 2018 of the Land Act Chapter 113 have registrations that allow landowners or landholders with formal land title to use their land as collateral to obtain a loan from formal financial institutions to activate investment on their land. The national financial inclusion framework of 2014-2016 and 2018-2022 was established with the focus of raising level of access to formal financial services in the country and to increase usage of financial services in Tanzania among different groups of population (URT, 2017; Mussa, 2018; Balele et al., 2018). All these are the initiatives to accommodate the excluded population in the formal system of management.

Researches on land regularization programs in Tanzania such as Kyessi (2005), Kironde (2006), Midheme (2007), URT (2008), Briggs (2011), Magigi (2013), Kyessi and Sekiete (2014), Mlowe and Urassa (2018) though in different dimensions evaluated the programs and showed that land regularization through land formalization (issuance of Residential License (RL) in urban saturated settlements and Customary Certificate of Right of Occupancy (CCRO) in rural areas have not significantly implicated land owners to access credit and improve livelihoods. For the case of rural context, the major reason is that financial market does not function well in rural areas of Tanzania and for urban areas the major reasons is that Residential License is termed as a weak title to be used as collateral to support credit access from formal financial institutions.

On the other hand, findings from Sheuya and Burra (2016) and Kusiluka and Chiwambo (2019) disclosed that landowners from Dar es Salaam who used their Residential License to access credit from formal financial institutions were conditioned to have additional valued physical property, implying that, residential license was not a panacea condition to access credit from financial institutions. Scholars (e.g. De Soto, 2000; Gilbert, 2002; Castro, 2011; Collier, 2017; Haas & Jones, 2017; Feyertag et al., 2021) have established a theoretical link on land tilting, access to credit and activation of investment on land. However, the information on the practice of the assumption of land titling and access to credit in regularized settlement in Tanzania remains to be a grey area to be investigated. This study attempts to examine empirically the implication of land regularization in accessing credits from formal financial institutions in Tanzania.

2. Material and Methods

2.1. The Study Area

The study was conducted in Kimara Ward and Buhongwa Ward in Dar es Salaam and Mwanza cities respectively. Dar es Salaam is the largest city in Tanzania with the highest levels of urbanization and population. The population growth rate is projected at 9% by 2025, which is one of the highest growth rates in Sub-Saharan Africa (URT, 2015, 2016, 2017, 2018; World Population Review, 2020; Panman, 2021). Mwanza on the other hand, is the second largest city with urbanization level estimated at 33.2% (URT, 2015, 2016, 2019). These two cities have a high number of unplanned settlements in the country with 80 and 70 percent for Dar es Salaam and Mwanza respectively (URT, 2015). These two cities have been implementing land regularization program to its urban consolidated unplanned settlements over five years (Magina et al., 2020; Manja et al., 2020). Moreover, they are among the cities in Tanzania with high proportion of her population; 100% for Dar es Salaam and 92% for Mwanza living within 5 km of a formal financial access (FinScope Tanzania, 2017).

2.2. Data Collection and Analysis

The research employed cross sectional research design. This design allows for an estimation of the prevalence of the outcome of interest as the sample of the study is drawn from whole population (Creswell, 2014). Cross-sectional design also allows the conduct of research while supporting the prediction of casual effect (the independent variable) to dependent variable (Creswell, 2014). In this context, land regularization is considered as casual variable while the dependent variable is access to credit from formal financial institutions.

Interviewers administered households' questionnaire was used to collect data from 441 plot owners. The questionnaire was self-designed based on principles from the established theoretical link on land tilting, access to credit and activation of investment on land. The theory was applied as an intervention logic or assumption during the implementation of land regularization (i.e. issuance of certificate of rights of occupancy to land). The results chain or the paths of the results articulate how the output of the activities conducted by a program is synergized to produce the expected change.

A total of 9 in-depth interviews were conducted with different key informants (KIs). Out of them, six were subject matter specialists from the two Local Government Authorities (two urban planners, two planning officers and two ward executive officers). The other group of key informants was loan officers from formal financial institutions. The aim was to get an understanding of whether land titles (CROs) from regularized areas were used as collateral to access credit from the named institutions. During interviews, emphasis was put on the implications of land regularization on accessing credit. KIs are normally rich in qualitative information (Leavy, 2017).

The researchers reviewed literature from published documents and articles. Among others to include urban planning regulations such as the Land Policy of 1995 and Urban Planning Act No. 4 of 2007, books and reports (for example, Creswell, 2014) and the national census 2002 and 2012. The review of these documents aimed at harnessing the already made information to enrich the study as per the argument that document review provides already made and rich information of the phenomenon being studied (Creswell, 2014). The study applied a comprehensive search which helps to locate large number of studies in relation to the topic of interest and a combination of multiple literature database with a wide range of key words and years. Zhao (2014) and Bramer et al. (2017) argue that using a comprehensive database provides greater coverage of all possible citations hence support making an accurate decision or conclusion.

The nature of data collected necessitated the use of both qualitative and quantitative data analysis techniques. A retrospective baseline survey was applied to map the situation before land regularization in which households were to reflect their ability to access credit before land regularization. Descriptive and regression equation was applied to analyze quantitative data. The emphasis was on the mapping under the established assumption that was applied for the intervention in this context land regularization through issuance of certificate of rights of occupancy can promote land owners to access credit from formal financial institutions. The application of regression in analysis eliminated attribution issues by establishing latent values implying attribution to the outcome from other variables (Newcomer et al., 2004; Raykov & Marcoulides, 2012; Bekkers, 2021).

3. Results and Discussion

3.1. Land Issued with Formal Titles after Land Regularization

The findings on land regularization indicate that, during land regularization land were demarcated into plots to be issued with certificate of right of occupancy. All plots were demarcated as residential plots. A minimum number of lands with informal title owned by a household before land regularization were one and maximum number of lands was 6 plots (**Table 1**). After land regularization the maximum number of plots owned by a household increased from 6 to 12, each plot was issued with certificate of right of occupancy. This implies that households with one or more plots issued with certificate of right of occupancy from land regularization have the possibility of increasing ability to access credit from formal financial institutions and activate investment on land.

Most of the plots before land regularization were termed farm plot. Farm plots are associated with credit risks before the lens of formal financial institutions (Sanga, 2009; USAID, 2021). Van Dirk and Fransen (2008) narrate that a review of the history of human settlement policies tends to show that such policies are often dictated by the effects of scenarios of human clustering of activities in space to protect people's livelihood. One such scenario is where rural human settlement clusters dominate and the second is where urban settlement clusters dominate. Ayonga (2021) note that, the policy dichotomy brings challenges in the mixed zone, where both rural and urban clusters exist (Rural-Urban divide land). This challenge was noted to be existing during the implementation of land regularization in the study areas. All plots that were originally termed as farm

Table 1. Number of plots before and after land regularization.

Number of Plots Before	Wards		Total N = 441 (%)
	Kimara n = 193 (%)	Buhongwa n = 248 (%)	
1	90.1	96	93
2	7.8	2	5
3	1	0.8	0.9
4	0.5	1.2	0.9
6	0.5	0.0	0.2
Number of Plots After	**Kimara**	**Buhongwa**	**Total**
1	58	65.3	62.1
2	20.2	20.2	20.2
3	11.9	6.9	9.1
4	4.7	4.4	4.5
5	2.6	2.8	2.7
6	1.6	0	0.7
7	1.0	0	0.5
12	0	0.4	0.2

Source: Household survey (2021).

land were demarcated as residential plots.

The idea behind demarcation originate from ground that, a separate land resource packet with formal title owned by a private individuals ensures tenure security and that land resources are expected to be allocated from low to high yield (Alchian & Demsetz, 1973; Locke & Henley, 2016; Rashid, 2021). De Soto (2000) stress that, land with formal title can be used as collateral to access credit from formal financial institutions to support activation of investment on the dead capital (land). In theory land parcel with formal title is noted to be a very suitable collateral asset as it cannot be removed and its economic potential (value) cannot be easily tempered. For land to serve as collateral the lender must be assured that, borrowers are indeed the owner and thus a secure title is needed (Feder & Feeny, 1991 cited in Sanga, 2009).

3.2. Linkage between Land Regularization and Access to Credit from Formal Financial Institutions

In the context of this study, linkages refer to the causality relationship between the explanatory variable and outcome variable. The explanatory variable is land regularization (number of plots issued with CROs and the outcome variable is access to formal credit using the plots issued with certificate of right of occupancy (as collateral to access formal credit). To capture this, households were to reflect their ability to access formal credit before land regularization. Findings (**Table 2**) indicate that, ability to access loan from financial institution increased from 16.8% before to 25.2% after land regularization, an increment of 9%. The ability to increase investment in Income Generating Activities (IGAs) increased from 21.8% before to 27.4% after land regularization, an increment of 6%. Majority of land owners felt that they have no ability to access credit and invest on land before and after land regularization.

Despite the fact that landowners in the study areas had certificate of right of occupancy (CRO) which is regarded as a strong property right in Tanzania, that can support activation of investment on land as per the theoretical claim (Feder et al., 1988; De Soto, 2000; Gilbert, 2002; Castro, 2011; Collier, 2017; USAID, 2021; Feyertag et al., 2021) but land owners in regularized settlements felt that lack of collateral was a major constraining factor to access credit from formal financial institutions to support activation of investment on land.

Possible reasons for the low-level access to credits in the study area could not be established. The possible explanation could be the financial institutions low acceptance of the certificates of right of occupancy as collaterals. Sanga (2009) conducted a study in Mbozi district and observed that farmers applied for loans using Customary Certificate of Right of Occupancy (CCRO) as collateral and banks are willing to provide loan for them. However, banks impose conditions which make the majority of poor farmers fail to get loans. The main reason for rejection is the low value of their land; contradicting with general beliefs that land registration improves access to credit. Loans are only provided in areas with high monetary land value and to people with big farms and those with small farms are advised by banks to form groups so that they can have joint liability collateral or they are required to present second collateral in the form of ware house receipts, indicating the value of their crops stored in the warehouse waiting for good price (Sanga, 2009). The low land value, high transaction costs compared to creditworthy and high competition in banking sector hinders banks to provide loans to poor farmers (ibid).

Evidence on the efficacy of the collateral mechanism in practice has been mixed. Formalization of land has been shown to have mixed positive impacts on credit access by enabling collateral in some contexts (USAID, 2021). However, in

Table 2. Household abilities created before and after land regularization on access to credit and investment.

Ability created	Before		After	
	Have Ability (%)	**No Ability (%)**	**Have Ability (%)**	**No Ability (%)**
access Credit (n = 441)	16.8	83.2	25.2	74.8
Invest. in IGA (n = 441)	21.8	78.2	27.4	72.6

Source: Field data (2021).

some contexts formalizing land rights alone has been insufficient to enable land to be used as collateral or to overcome other barriers that constrain credit access, particularly for poor landholders thus requiring complementary programs or policies to enable the collateral mechanism to work. On the other hand, responses from the loan officers of the banks involved in the study, that is the National Microfinance Bank (NMB), CRDB and Access Bank were of the opinion that; banks does not recognize certificates of right of occupancy as collateral to access loan but a client needs to have an already established business. This is an indication that, despite the fact that land owners have certificates of right of occupancy which is termed as strong property title (URT, 2012, 2013), the financial sectors still perceived risks of non-delinquent behavior and default from land owners with certificate of rights of occupancy. The major reason was that land owners lacked already established formal business.

During an interview, one loan officer from one financial institution in Kimara ward who preferred anonymity had this to say:

> "…We have clients who come here asking for loan but they have certificate of right of occupancy with no supporting documents that they have already established formal business to support loan repayment…" (Loan Officer, Kimara, January, 2021).

We further observed that the main economic activities of the population who managed to access credit from formal institutions were from the entrepreneur/business group. This contradicts with the aspiration of land regularization that, a household with formal documentation of land will increase the ability to access credit and invest on land.

3.2.1. Likelihood of Landowners to Access Credits

We analyzed the likelihood of land owners to access credits in the study area using structural equation model and findings are presented in **Table 3** below.

The results of the estimates from the regression equation above revealed that a unit increase in the number of plots with certificate of rights of occupancy to land owner decrease the likelihood for a land owner to access credit to formal financial institutions by 0.02, but a unit increase in number of plots was found to lead to the increase in likelihood to invest by 0.04. These results were statistically insignificant ($P > 0.05$). This implies that there were less and/or no linkage between land regularization and landowners' generated ability to access credit from formal financial institutions using Certificate of Right of Occupancy (CRO) as collateral to support investment. This is to say, despite the number of plots issued with Certificate of Right of Occupancy (CRO) per household, the ability to access credit in the formal financial institution in study areas was limited.

The above shortfall might be attributed by policies, regulations and plans that guide operations of financial sector. Generally, profit maximization is the main objective of an institution operating in any market economy. The operations of

Table 3. Land owners' likelihood to access credit and investment on land.

	Structural equation model Estimation method = ml Log likelihood = −1395.958 −1395.5 OIM					Number of obs = 441
	Coef.	**Std. Err.**	**Z**	**P > |z|**	**[95% Conf.**	**Interval]**
Structural						
Cred Access Diff <-						
Plot Diff	−0.0168	0.02884	−0.58	0.56	−0.0734	0.0397
_cons	0.08863	0.02591	3.42	0.001	0.03784	0.13942
Investment Diff <-						
Plot Diff	0.03688	0.01926	1.91	0.056	−0.0009	0.07463
_cons	−0.0172	0.01731	−0.99	0.321	−0.0511	0.01675

Source: Field survey (2021); OIM = Observed Information Matrix; obs = Observations.

the financial sector are more of risk averse therefore excluding some groups of population to access and use their financial products (Mwandenga, 2003; Sanga, 2009). Montiel et al. (2012), Moyo et al. (2014) and Mwankemwa and Mlamka (2022) cautioned that the channels through which monetary policy affects aggregate demand depend on a country's financial architecture. This can be objectively answered by a question of "What do policies and regulations related to financial issues want to achieve? This will guide the financial plans and implementation in a country. Escaping the question will lead to the vicious cycle of policy formulation. Also, exclusion can be attributed by less/lack of other stakeholders' participation to generate a framework on how to integrate regularized land in the formal financial products (the issuance of certificate of right of occupancy and formal credit) at very micro level of analysis (a household owning land plot/plots with certificate of right of occupancy).

As it was explained by key informants (land officers and sub-ward leaders) that the implementation of land regularization involved government institutions (Ministry of Lands Housing and Human Settlement Development, Tanzania Revenue Authority, the office of registrar of title and the local government authority). This implementation process left behind formal financial institutions (the regulated and registered financial institutions). These include Banks, Mobile Money Providers, Microfinance Institutions and Saving and Credit Cooperative Organizations (SACCOS).

The part of institutional framework which includes actors such as ministries, regulatory authorities, associations, and development partners need to play different roles to achieve financial inclusion goal as detailed in the (National Financial Inclusion Framework) (URT, 2014; 2017), these frameworks were noted to be documented at the national level with less integration during the implementation of land regularization to achieve the aspiration of the activating the so-called dead capital in the study areas. Ellis and Mdoe (2003) asserts that rural poor encounter a public and private sector institutional context limitation that blocks rather than enabling them to construct a path out of poverty. Also, Kessy (2005) noted the lessons learned from different epochs of land management in Tanzania, from Ujamaa village (socialist economy under common ownership of land resources) to market economy (private ownership of land resources). In relation to formal financial access the author noted that, the poor had difficult to access financial resources due to lack of collateral.

The results from this study are contrary to those obtained in Peru by Graglia and Panaritis (2002) and Galiani and Schargrodsky (2005) who generalized that land regularization enhances access to formal credits to land owners and, hence, activation of business on land. Moreover, the findings from this study support the results of the study conducted in Peru by Field and Tarero (2006) which claimed that formal financial institutions do not use property titles to scrutinize and approve loan. Rather, they use clients already established income generating activities and employment. This was supported by a landowner from Kimara who had this to say:

> "… I have accessed credit from one of the micro-financial institutions. They wanted me to surrender my certificate of right of occupancy but that was just a supporting document. The main collateral I submitted to get credit from bank was a motor vehicle card. I own vehicles that operate as a town bus. They as well wanted to see the flow of income that is generated from the named vehicles. That helped me to get loan from the bank; otherwise, CRO could not help me to access loan. Of course, CRO has its potential because they came here to evaluate the value of my land and the property I have. It helped me to get at least a big amount of loan. I used the money to construct houses for rent" (Landowner at Kimara, January, 2021).

One respondent in Buhongwa ward who is engaged in agriculture claimed that the procedures to access loans from formal financial institutions were difficult: He said:

> "… I have my certificate of right of occupancy but this certificate does not help and is not recognized. Instead, they instructed me to get a letter from Misungwi District Council as evidence to recognize that I am a legal owner of the farm, with supporting evidence of the sales from my farm…" (Land owner Buhongwa, February, 2021).

Theoretically, the banking industries are generally considered the most effective organizations for providing financial resource allocation for activation of the country investment and consumption (Moyo et al., 2014; Mwankemwa & Mlamka, 2022). It is an industry that plays an essential role in the economy in terms of resource mobilization and allocation. The miscellaneous Amendments No. 1 of 2018 of the Land Act Chapter 113 have registrations that allow land owners or landholders to use their land to obtain a loan from banks and financial institutions to support investment on land. The responses from land owners imply that the process of implementation of sectoral policies, Acts, plans, programs, projects and activities lack strategic coordination and integrated approach to achieve the input, output and outcomes model as per theoretical framework.

The achievements from the theory to practice could have been observed from the bridged gap that could generate a household's ability to access credit and invest in business after land regularization in urban regularized areas. This implies that in theory, certificate of rights of occupancy to land is assumed to be an incentive and legal measures provided by the public sector to bridge the formal financing gap to land investment in regularized settlements. In practice, formal land was found not to generate ability to access credit from formal financial institutions. Platteau (1996) analyzed, the evolutionary theory of land right that has been considered as a dominant framework for economist to implement land reform in developing countries and noted that, the theory is less functional in a region with vacant land resources but do function in a region with scarce land resource; suggesting for shift from relying on evolutionary theory of land right in sub-Saharan Africa and to base on the more appropriate solutions that rely on existing informal mechanism at community level that accommodate all categories of economic status in a given population.

Sheuya (2007) and Sheuya and Burra (2016) argued that, in most cases, low-income earners from informal sector ask for small loan which is against high administration cost of the institutions' and they are unable to understand and comply with the complex procedures involved in large commercial and especially banking institutions. This group of people usually lacks capacity building on how to link land title and investment. The description from Sheuya (2007) on households understanding in lending procedures is consistent with the results from this study. The findings from study indicate that none of land owners issued with certificate of right of occupancy were trained for capacity building in relation to certificate of rights of occupancy and access to credit from formal financial institutions. Generally, capacity building on land rights, land and access to credit and land and investment was not a priority during land regularization. All landowners never attended any capacity building/training in relation to the above-mentioned important aspect of land, access to credit and investment.

4. Conclusion

The study concludes that, Land regularization helped household to have certificate of right of occupancy to demarcated land parcels but, the formal documentation of land parcels was found to have insignificant implication on access to credit from formal financial institutions. A unit increase in the number of plots with certificate of rights of occupancy to land owner was found to decrease the likelihood for a land owner to access credit to formal financial institutions. Detailed information on the reasons for the decreasing likelihood to access credit formal financial institutions in the study area could not be established. However, the findings from the study noted that regardless of the number of plots issued with certificate of right of occupancy per land owner, there was no enabling environment such as land investment transformation initiative in urban environment to support land owners issued with certificate of right of occupancy to get a link with the formal financial institutions to activate investment on land. Land owners issued with certificate of right of occupancy felt that, lack of collateral was a major stumbling block for accessing formal credit to support investment on urban regularized land. The study recommends a need to link land regularization with capacity building to land owners on matters related to land rights, land and access to credit and land and investment. There is a need to establish a framework for analysis of investment potentials in urban informal settlements prior land regularization, so as to pave a way for a synergy between financial plans from financial institutions to produce financial products and operational mechanism that fits the objective of activating investment on land after land regularization in Tanzania.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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