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Original Article

Factors Influencing the Use of Property Titles as Security for Lending in Rural Kenya: A Case Study of Kivani Location, Machakos County

Phoebe Mueni Nzuki[1*]

[1] Technical University of Kenya, P. O. Box 52428-00200, Nairobi, Kenya.
* Correspondence Email: mueniphoebe61@gmail.com

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ABSTRACT

The development of the world's economies, especially in emerging countries, depends significantly on land. Despite being a crucial tool for obtaining loans, the use of land as collateral is relatively low in rural Kenya. This has largely been attributed to lack of formal ownership documents attributable to poor titling, which has subsequently hindered investments and development in these areas. The research gap, therefore, lies in the need to understand and address the reasons behind the low uptake of land as collateral in rural Kenya, despite its potential as a valuable asset and its significant role in rural livelihoods and development. This study set out to establish factors influencing the use of property titles as loan security in a rural setting using Machakos County as a case study. Employing a descriptive research design, the study targeted 724 households in Kivani and 30 financial institution officers. Data was collected using questionnaires and topical discussions, achieving response rates of 96% and 100%, respectively. Findings reveal that 67 percent of respondents have never used land titles as collateral. Several factors were identified: social relations, lending conditions, and loan pricing. Social relations factors included communal land ownership, land succession problems, cultural norms, and sentimental attachment to land. Lending conditions encompassed land valuation processes, borrower creditworthiness requirements, collateral quality, and the need for family consent. Loan pricing factors involve the costs and fees associated with credit financing. The study recommends increasing awareness of individual land ownership, exploring alternative collateral options, establishing insurance markets for collateral assets, and improving loan evaluation processes to better support rural residents. These measures aim to enhance access to financing, thereby promoting rural development.

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INTRODUCTION

This paper focused on the factors influencing the use of property titles as security for lending in rural Kenya, Kivani Location, Machakos County. The paper presents the background of the study, problem statement, objectives, theoretical review, empirical review, materials and methods and the findings from the study.

Background of the study

The absence of collateral poses a significant barrier for disadvantaged individuals in rural areas seeking access to conventional banking services. To meet their financial needs, the poor have developed various ad hoc community-based financial systems (Brau & Woller, 2004). Credit serves as a vital source of funding for business owners, corporations, and multinational firms, enabling significant economic activities through borrowing (Enyia, 2018). However, extending credit entails risks for financial institutions; thus, ensuring the borrower's ability to repay the loan is crucial for risk mitigation. Using assets as collateral becomes a reliable strategy for recovering the loan's cost in the event of borrower default or non-compliance with loan conditions. Collateral serves to enhance the borrower's liability capacity and improve their creditworthiness by mitigating the impact of default and information asymmetry in financial markets (Ioannidouy et al., 2019).

Collateral pledging, as described by Gitman (2003), involves debtors providing assets to a financier as security for debt repayment. In case of borrower default, the value of the pledged assets must be utilized to recover the outstanding debt. Rural borrowers typically offer immovable assets such as land and landed properties as security, with a market value equal to or exceeding the principal amount and accrued interest in case of default (Garrett, 2009). It is crucial for collateral to be easily tradable under normal market conditions to facilitate the recovery of losses resulting from loan default (Kihimbo, 2012).

Land titles in Africa serve as instruments to empower the underprivileged by granting them access to land-based resources, as noted by Boone (2018), and providing legal empowerment. Soto (2003) argues that the absence of official property titles contributes to the difficulty in obtaining loans. Despite the fact that the poor often own valuable land, which could enhance their ability to secure loans, such properties are often not used as collateral. In rural areas, land stands out as the primary and most lucrative asset (Burgi & Yeboah, 2017), playing multiple roles: it serves as a cornerstone of societal and ethnic identities, a valuable tool for fostering economic advancement, a critical element in environmental preservation, and a means of promoting inclusive, adaptable, and environmentally friendly communities. Consequently, the socio-cultural context and legal framework governing property rights play a pivotal role in determining how land can be utilized as collateral (Quan et al., 2004).

The majority of Kenyans still reside in rural regions, relying on agriculture for their livelihoods (NLUP, 2016). According to the most recent statistics from the Kenya National Bureau of Statistics (KNBS, 2019), 32,732,596 people, or 68.9% of the population, dwell in the countryside. Leveraging land and other assets as a means of

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obtaining funding from conventional organizations is one primary approach to offer sustainable livelihood options to rural populations lacking steady employment. However, land remains the primary preference as security among Kenyan financial lenders. Despite substantial progress in ensuring the sustainable and profitable use of agricultural land in Kenya, funding availability remains a challenge. This study aims to investigate factors influencing the use of property titles as collateral for funding in rural areas of Kenya.

Problem Statement

Despite the considerable importance and value of land as a critical asset in rural settings, its potential to serve efficiently as collateral remains largely underutilized (FSD-Kenya, 2015). This situation hampers economic growth and development objectives, especially considering that in rural areas, land constitutes a significant proportion of wealth and holds a substantial cultural value (Burgi & Yeboah, 2017). The research gap, therefore, lies in the need to address and understand the reasons behind the low adoption of land as collateral in rural Kenya, despite its potential as a valuable asset and its significant role in rural livelihoods and development. Additionally, there is limited knowledge of the specific factors influencing the low uptake of land as collateral and the policy interventions that can be implemented to overcome these barriers and promote access to finance and economic development in rural Machakos County.

A review of the previous studies reveals both conceptual and contextual gaps. For instance, Jiang et al. (2020) focused on the use of property titles to access finance in Thailand, yet overlooked key factors such as loan pricing and lending conditions, instead emphasizing social factors. Similarly, Deininger and Jin (2003) found in their study in Thailand that land titling increased the usage of land as collateral particularly in agricultural areas, suggesting the influence of economic activities and local land tenure systems. In rural Kenya, where agriculture dominates, particularly through smallholder farming, understanding the relationship between land ownership, access to credit and agricultural productivity is crucial as it may directly influence the willingness of financial institutions to accept land as collateral. Conversely, local studies like Gichuki et al. (2014) focused solely on financial lending conditions, neglecting important social factors relevant to land collateral in Kenyan rural areas, highlighting a conceptual gap.

Therefore, this study aims at addressing both conceptual and contextual gaps by examining social relation factors, alongside lending conditions and loan pricing factors. By doing so, the study aimed at closing the existing information, policy, and practice gaps related to the factors influencing the use of property titles as security for lending within the context of a Kenyan rural area. Understanding these factors is crucial for providing valuable insights into the economic development potential of rural areas. Ultimately, the research aims to enlighten policymakers, financial institutions, and development organizations in designing inclusive and efficient financing systems that can contribute to poverty eradication and sustainable development in rural Kenya.

Objectives of the study

The main objective of this study is to establish the factors influencing the use of property titles as security for lending in Rural Machakos County

Research Question

What factors influence the use of property titles as security for lending in Rural Machakos County?

Theoretical and Empirical Analysis of Land Titles as Collateral in Financing

Introduction

This section examined the theoretical, empirical, and conceptual framework on the concept of use of land as collateral for financing in rural areas.

Theoretical review

This study was anchored on the theory of financial intermediation.

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Theory of Financial Intermediation

Financial Intermediation theory, inventedin1960 by Gurley and Shaw is instituted on the agency theory and the information asymmetry theory which explains the relationship between principals and their relative agents. In theory, the presence of middlemen in financial transactions is illustrated by the high operational expenses, the governance mechanism, and the absence of all-inclusive facts at the appropriate moment. The theories satisfy the subsequent provisions in agreement using the model of perfectly functioning money markets in the neo-classical theory: the borrowing prerequisites for lenders and debtors are undistinguishable; none of the parties can impact the values; there does not exist prejudiced costs; and the absence of contestable edge (Andries & Cuza, 2009). Financing is an instrument for financial mediation - reason being that capital becomes accessible to individuals who require it for deployment in the economic development. Levine's (2002) studies emphasized firmly the function of financial intermediation in economic growth and development.

The relevance of this theory lies in the fact that most agribusinesses in rural Kenya are family or individually-driven rather than cooperative-based, leading people to borrow as individuals rather than through cooperatives. This makes the theory pertinent in analyzing the use of title deeds as collateral for obtaining funding for agribusiness enterprises run by individuals or families. Due to inadequate security and financial information asymmetry, Financial Intermediation Theory explains the deficient credit access experienced by prospective borrowers when lending conditions are not met.

Empirical review

Factors influencing the use of Land Titles as Collateral in Financing

While limited research exists on these correlations, Narayan & Chakraborty (2019) suggest that factors such as landholding, land tenure, and tenancy patterns may influence the extent to which farmer households use land as collateral. Regional disparities in collateral usage may therefore reflect differences in landownership arrangements. For example, in regions where tenancy is prevalent, particularly among landless households leasing land for farming, the utilization of land as collateral is unlikely to be significant. Additionally, variations in the types of collateral predominant in different regions may be influenced by spatial disparities in the development of self-help organizations and micro-lending institutions. Dower & Potamites (2005) note that informal documentation can sometimes suffice to establish ownership, enabling the use of land as collateral. Supporting this notion, Domeher et al. (2016) found that 68% of private sector lenders required secure land titles, while 6.7% accepted properties without formal registration as collateral, further underscoring the relevance of informal documentation in this context.

According to Sanjak (2012), the absence of sufficient documentation validating land ownership rights is a significant constraint in accessing loans. This is particularly relevant for individuals in industrialized countries like the United States, where substantial funding is often secured by real estate, necessitating accurately documented ownership registers for tangible properties such as property titles for credit transactions. However, in such circumstances, loan approval and conditions are influenced by other factors, including income level, credit market accessibility, and the viability of the borrower's business idea. Nonetheless, initiatives to promote land rights have often been based on the oversimplified notion that land title ownership alone guarantees financial access for farmers and other financially disadvantaged individuals, facilitating their transition out of poverty.

In the Kenyan context, a major challenge faced by rural residents is the lack of titled land, rendering it unusable as collateral for loans. This issue was analyzed in the present study. Ideally, title deed registrations should help nations reduce land disputes, prevent unfair land appropriation, facilitate the use of land as loan collateral, and promote sustained financial investment in land

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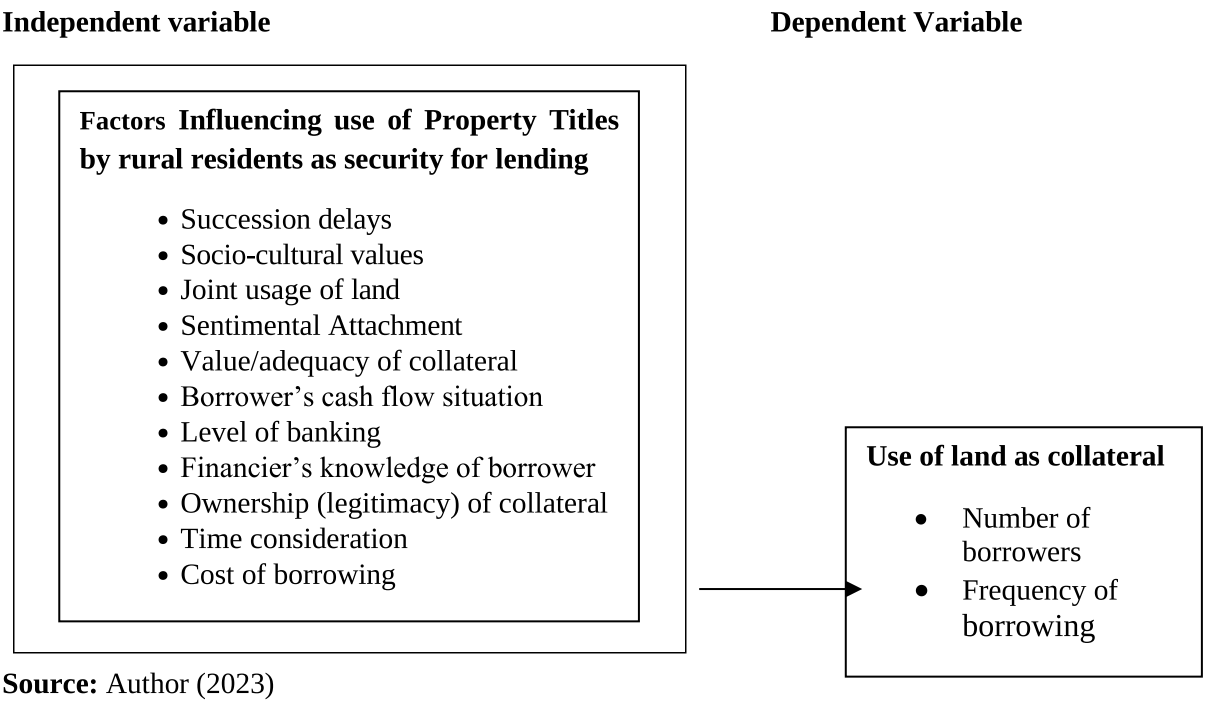
development to enhance agricultural productivity and revenue (Fenske, 2011).

The establishment of competent land markets, enabling the transfer of land ownership to more productive individuals, could be facilitated by land titling, according to the World Bank (2009). This would enhance land utilization and its associated natural resources. In Kenya, Gichuki et al. (2014) found that 38% of the adult population cannot access credit, with only 19% obtaining credit from lending organizations. More than 35% resort to informal means of credit due to issues such as insufficient funds, unacceptable business plans, and collateral concerns. Similarly, Itonga et al. (2016) investigated the impact of loans on women-owned ventures in Kenya's Imenti North Sub-County, revealing that 25.99% of participants hesitated to seek loans from banks due to stringent collateral requirements, and 23.73% avoided borrowing for fear of losing pledged assets to lenders. Table banking groups, however, imposed fewer credit conditions, such as collateral requirements, on their members when applying for loans.

Conceptual Framework

Figure 1: Conceptual framework



Source: Author (2023)

Materials and Methods

Study Location

The study was undertaken in Kivani Location, which is in Kangundo Sub-County in Machakos County. The Sub-County headquarters is located at Kangundo town, which is about 65 km east of Nairobi, the capital of Kenya. Its population is 97,441 with 18,065 households. Generally, land has not been entirely used for agricultural output in the area. The farm's average size in the area has been constantly decreasing owing to the rapid population growth rate. While the average farm size for large-scale farming is ten hectares, it is 0.756 hectares for small-scale farming. The county's primary economic sector is agriculture.

Target Population

As stated by Shiteswa et al. (2017), the population encompasses every component that meets the necessary criteria for inclusion in a research investigation. The study's target population included 724 families in Kivani Location, Machakos County, and 30 financial institutions,

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comprising banks, SACCOs, and microfinance organizations (KNBS, 2018).

The study used Nassiuma's (2000) sampling formula to determine the sample size, adopting the lowest threshold for a coefficient of variation (21%) and a standard error (2%) to ensure the largest sample size limit.

$$S = \frac{N(Cv)^2}{(Cv)^2 + (N-1)e^2} \quad (1)$$

Equation (1) is the Nassiuma's sampling formula.

Where S = the sample size

N = the population size

Cv = the Coefficient of Variation

e = standard error

The sample size was as follows:

$$S = \frac{724\,(0.21^2) = 95.7947}{0.21^2 + (724-1)\,0.02^2} \approx 96 \text{ Households in Kivani Location.}$$

96 households in the Kivani location of Machakos County were then chosen at random to serve as the sampling framework for the study.

Data Analysis

Data for this study were collected using questionnaires and topic discussions. The questionnaire was selected due to its ease of administration, ease of scoring on a 5-point Likert Scale, and ease of analysis (Cohen et al., 2007). Tables and graphical techniques were used for presentation while descriptive statistical methods were used to compute means, frequencies, and percentages. After checking the questionnaires for errors, the data were encoded and inputted for analysis. Theme analysis was also used to examine the non-numeric data acquired from interviews performed by the study among participants.

Findings and Discussion

Data collection was undertaken between March and April 2023. The purpose of the fieldwork was to gauge public understanding of the factors considered when using land as collateral. This was achieved through administered questionnaires to landowners in Kivani Location, Machakos County. Simple random sampling was used to select landowners within the boundaries of Kivani Location, Machakos County. The selected landowners were then given questionnaires.

Response Rate

The results are listed in Table 1 below. The researcher delivered 96 questionnaires to households in the Kivani location and 30 officers working in financial institutions in the county who were within reach and expressed readiness to take part in the study.

Table 1: Rate of Response

Respondents	Number of Questionnaires Issued	Number of Questionnaires Returned	Response Rate
Households	96	92	96%
Officials from Financial Institutions	30	30	100.0%

Source: Survey results (2023)

For a response rate to be considered adequate for analysis, it must be above 50 percent. Therefore, the response rate of 96 percent in this study was deemed sufficient for analysis.

Demographic Characteristics of the Respondents

Age

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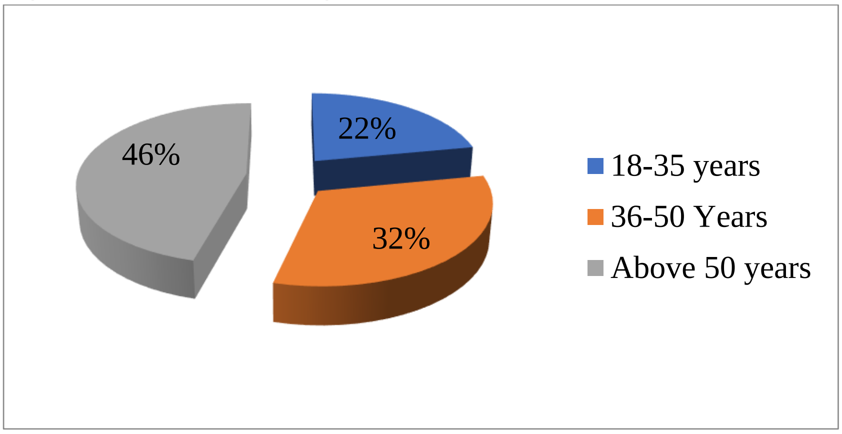
Figure 2: Respondents' Age

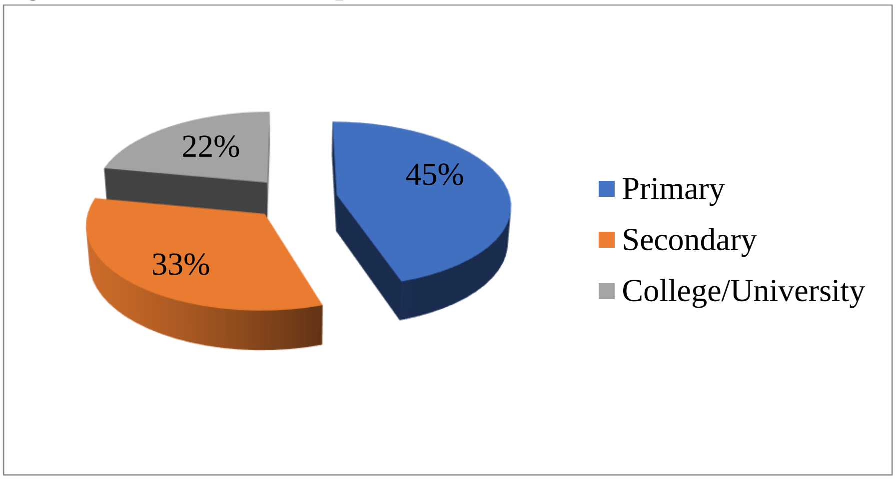


Source: Survey results (2023)

Analysis of the findings presented in Figure 2 reveals that a significant majority of landowners in the selected households were aged above 50 years, accounting for 46%. This age group was followed by those between 36-50 years, comprising 32% of the sample. Conversely, landowners aged between 18-35 years constituted the smallest proportion at 22%. These findings suggest that title deeds in Kivani location are predominantly held by elderly individuals, indicating potential limitations faced by younger individuals in leveraging land for financing opportunities.

Level of Education.

Figure 3: Education of Respondents



Source: Survey results (2023)

Analysis of the results presented in Figure 3 indicates that the majority of respondents had completed primary education (45%), followed by secondary education (33%), with college and university graduates comprising 22% of the sample. This suggests that most landowners in the study area do not have a high level of education, potentially leading to unfamiliarity with the importance of using land as collateral for development. Consequently, this may explain the lower utilization of land as collateral observed in the study location.

Gender

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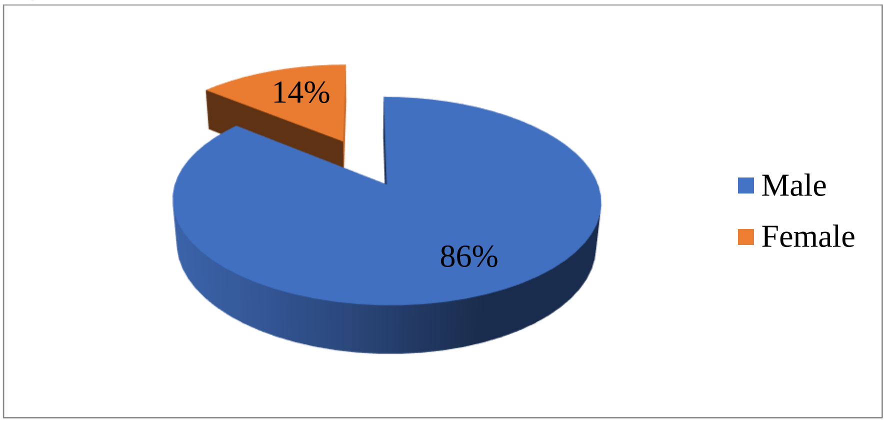
Figure 4: Respondents' Gender



Source: Survey results (2023)

From the findings in Figure 4, it is clear that most landowners from the selected households were male at 86%. The female landowners from the selected households were 14%. This means that the community does not place ownership rights on women, and this could be explained by cultural factors.

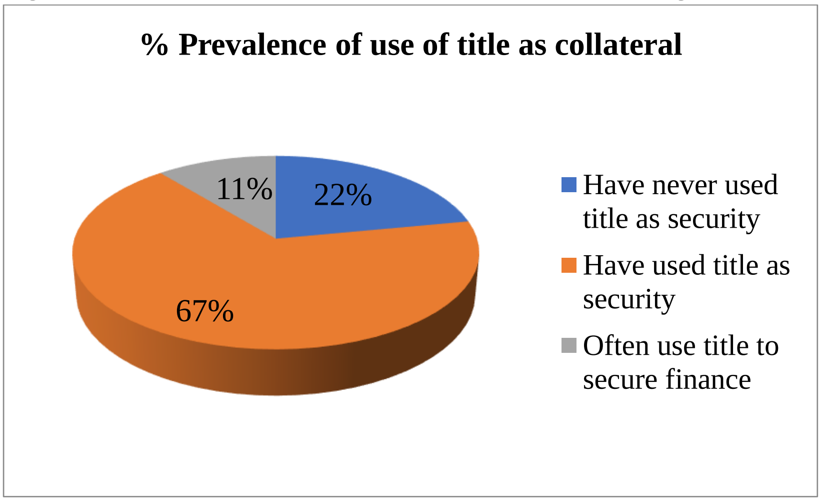
Factors influencing the use of Title Deeds as Security for Financing

To determine the factors considered by the landowners in using title deeds as collateral for financing, the factors were categorized into three, social factors, lending factors, and loan pricing factors. Participants were asked to rank the factors that landowners considered when using titles as collateral for financing on a 5-point Likert scale. A mean score was calculated, where a higher mean score indicated that the factor was given more importance, and a lower mean score indicated that it received less importance.

Level of Awareness of Use of Title Deed as Collateral in Financing in Rural Machakos County

The level of awareness was found to be one of the factors that determine the use of property titles as security for lending. To identify the level of awareness, the 30 respondents with title deeds were asked to indicate whether they had ever used their title deeds as security and if they regularly used their titles in seeking for financing. Figure 5 summarizes the obtained results:

Figure 5: Level of Awareness of Land-Based Financing



Source: Survey results (2023)

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The respondents' familiarity with land-based finance varied significantly. A majority (67%) reported never having utilized their title deeds to obtain financing, while 22% had done so at least once, and 11% reported regularly using their title deeds for financing purposes. This indicates a low level of knowledge about using titles as collateral for financing. Additionally, it suggests that rural landowners are not well-exposed to this type of financing hence the need to create awareness. This lack of exposure could be attributed to the fact that many landowners had not completed the land succession process to transfer titles to their names, with most lands still being held in the original landowners' names.

Social Relations Factors

The study sought to determine the social relation factors that hindered the use of land as collateral. The social relation factors considered included communal ownership of land, exclusion of women in land ownership, sentimental attachment to land, exclusion of unmarried in landownership, fear of selling land, part of lands designated as graveyards and fear that land can be stolen by financial institutions.

The study's findings showed that land was deemed to have sentimental value and that no one was permitted to use it as collateral, placing it first overall with a mean of 4.7, while land being considered a communal property was ranked 2nd with a mean of 4.68, fear that land may be stolen and sold by the financial institution was ranked 3rd with a mean of 4.63 while consideration that graveyards should be treated as sacred places and that should be left as shrines to appease the dead was ranked 4th with a mean of 4.17. The other factors that ranked low are women were not allowed to own land and youth of legal age were also not allowed to own land for they may sale the land, these ranked at 5 and 6 with means of 3.22 and 2.99 respectively.

Property rights in all societies are governed by a system formally established by law or informally defined through customs. The results obtained from the field study highlight that utilizing land as guarantee is likely hampered by the social traditions and ideas that rural people hold to their property (Quan et.al, 2004. For example, sentimental connection caused individuals in Machakos rural areas to value their land so highly that they were unwilling to risk using it as collateral for a loan to further their own and their families' lives. Communal ownership and joint usage of land and fear of the land being foreclosed by the financial institutions were also major social issues that affected the rural Machakos County households' usage of land as security for loans. Table 2 indicates the mean of responses.

Table 2: Social Relations Factors

Social Relation Factors	mean	Rank
The land is communally owned and therefore no single person can obtain loan using the title	4.68	2
Women are not allowed to own land and this affect them in using the land title which is owned by men	3.22	5
In our area, land has sentimental value and therefore should not be used to obtain loans	4.70	1
One is only allowed to own land when he is married	2.42	7
Youth are not allowed to own land even if they are above 18 years for fear of selling land	2.99	6
Part of the land is the graveyard of our keen and therefore cannot be used to obtain loan	4.17	4
In my area, we fear that the financial institutions will steal the land from us.	4.63	3

Source: Survey results (2023)

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The findings are consistent with those of Quan et al. (2004), which established that utilizing land as collateral is often inhibited by social traditions that attach significant value to property. The study found that socio-cultural factors influence decisions regarding the use of property as a guarantee. Furthermore, Mphande (2016) determined that people in rural areas rely on land to fulfill social obligations and that land confers social prestige, resulting in a strong attachment to it. Additionally, Onchiri and Patrick (2015) observed that in most African cultures, women are unlikely to own land or property registered in their names, as most property rights are conferred to men, thus excluding women from owning property and making decisions on its use. Ultimately, these findings highlight the significant impact of socio-cultural factors on land use decisions, emphasizing that addressing these cultural barriers is crucial for promoting equitable access to property rights and financial opportunities.

Lending Factors

The study assessed several factors considered when using land as collateral, including awareness of financial lending conditions, awareness of the land valuation process, disclosure of cash flows, membership at a banking institution, and disclosure of background information, land location, and consent from family members.

The results of the investigation showed that the requirement for background checking was the most highly considered factor, with a mean of 4.09. This was followed by the value or location of the land and the requirement for consent from other family members, which ranked 2nd and 3rd with means of 4.02 and 3.63, respectively. The cash flow condition of the applicant and the type of banking institution were ranked 4th and 5th with means of 3.61 and 3.22, respectively. The lending conditions and the valuation process were ranked 6th and 7th, with means of 1.96 and 1.89, respectively.

From the findings, it can be deduced that the major factors hindering the use of land as collateral were background checks and the disclosure of land location. Conversely, the lack of awareness of financial lending conditions and the land valuation process were the least significant barriers. Additionally, most respondents were aware of other lending conditions, such as the disclosure of cash flows, membership at a banking institution, and consent from family members. Table 3 presents the findings.

Table 3: Lending Factors Considered by Financial Institutions When Using Land as Collateral

Lending Factors	**Mean**	**Rank**
I am aware of most financial lending conditions in our area	1.96	6
I am aware of the land valuation process of most of financial institutions that accept land title for obtaining loans	1.89	7
I am aware that most of financial institutions that accept land title for obtaining loans require to know my cash flow condition.	3.61	4
I am aware that most of financial institutions that accept land title for obtaining loans require to know where I bank	3.22	5
I am aware that most of financial institutions that accept land title for obtaining loans require to know my background information	4.09	1
I am aware that most of financial institutions that accept land title for obtaining loans require to know the location of my land	4.02	2
I am aware that most of financial institutions that accept land title for obtaining loans require consent from my other family members	3.63	3

Source: Survey results (2023)

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According to Briggs and Zuijderduijin (2018), financial institutions must mitigate risks in loan transactions by assessing the value of property or land used as collateral. Similarly, Narayan and Chakraborty (2019) observed that the number of loans receivable, collateral value, and default risk are correlated and form major considerations for lenders in their decision-making processes. This interrelation underscores the importance of thoroughly assessing collateral and comprehensively evaluating default risk to make sound lending decisions.

Loan Pricing Factors

The study also assessed the financial factors that could hinder the use of land as collateral. These factors included; awareness of the cost of loans charged by financial institutions, loan processing fees, transaction fees, loan defaulting fees, hidden fees and land valuation fees.

The study's results showed that the amount of transaction fee is highly considered with a mean of 2.1 followed by the cost of loans and land valuation fees at 1.73 and 1.52 means. The other factors considered ranked low were the amount of processing fees with a mean of 1.48 and charges for defaulting with a mean of 1.42.

From the findings, it can be inferred that the major loan pricing factors that hindered the use of land as collateral are hidden fees, land valuation fees, cost of land, and transaction fees hindered with use of land as collateral as shown by the mean values. Loan defaulting fees and loan processing fees were the least factors considered. Therefore, hidden fees, transaction fees and cost of land could be considered as the major factors that hinder the use of land as collateral. Table 3 presents the findings.

Table 4: Loan Pricing Factors in using Land as Collateral

Loan Pricing Factors	Mean	Rank
I am aware of the cost of loans that financial institutions charges	1.73	3
I am aware of the loan's processing fees that financial institutions charge	1.48	5
I am aware of the transaction fees that financial institutions charge	2.10	2
I am aware of the loan's defaulting fees that financial institutions charge	1.42	6
I am aware of any other hidden fees that financial institutions charge	2.24	1
I am aware of the land valuation fees that financial institutional charge	1.52	4

Source: Survey results (2023)

As stated under the loan pricing theory by Stiglitz and Weiss (1981), bank loan pricing, particularly interest rates, largely depends on the expected returns. Additionally, banking institutions consider potential risks attached to the subject collateral when lending. If a client is deemed high-risk, the cost of credit is likely to increase to mitigate these risks (Karumba & Wafula, 2012). Therefore, understanding these factors is crucial for financial institutions aiming to balance profitability and risk management effectively.

Conclusion and Recommendations

Conclusion

This study examined factors affecting the use of land title deeds as collateral for financing, categorizing them into social, lending, and financial factors. Respondents preferred other borrowing instruments over land due to its sentimental and communal value. Bulk-registered landholdings in the names of forebears also prevented the use of titles as collateral. There were concerns about financial institutions potentially exploiting and selling collateralized land.

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Key lending factors included background checks, verifying the legitimacy and value of the collateral, and obtaining family consent. Among financial factors, transaction fees had the greatest impact on decisions, followed by loan costs and land valuation fees. These findings highlight landowners' strong adherence to traditional norms and their cautious approach due to foreclosure concerns and high transaction costs, emphasizing the essential need to address cultural and financial sensitivities to promote land-based financing.

Generally, these findings underscore the complex interplay of social, lending, and financial factors influencing the use of land title deeds as collateral. They support the conclusion that, despite the existence of title deeds, land-based financing remains intricate. To broaden its use, exploring additional avenues beyond land as collateral is necessary.

Recommendations

The study makes the following recommendations:

Firstly, educating rural communities about the importance of individual land ownership and the advantages of using land as collateral can help reduce communal ownership and joint land usage. This initiative not only fosters a deeper understanding of the economic benefits associated with land-based financing but also encourages residents to consider the economic potential of their land holdings.

Secondly, exploring alternative collateral options alongside land is crucial to improving rural landowners' access to financing for development. This exploration should include assessing movable assets or developing innovative financial instruments tailored to the specific needs of rural communities. Given that many residents have sentimental attachments to their land, which often makes them hesitant to use it as collateral; diversifying collateral options could alleviate barriers to accessing financing.

Thirdly, the study advocates for specific policy proposals. It recommends that the government establish insurance markets for assets used as collateral. This measure aims to enhance borrowers' confidence in pledging valuable assets, such as land, in loan contracts, thereby mitigating concerns about foreclosure by financial institutions. Additionally, the study suggests enhancing the evaluation process for loan applications to prioritize factors beneficial to rural residents. This includes mitigating borrower inefficiencies like credit rationing, which can lead to lower loan-to-value (LTV) ratios and limit access to adequate financing.

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