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Mortgaging in Uganda: The potential for enhancing Women's Opportunities in the Formal Sector

Abstract

Key words: *Land registration, women landownership, mortgaging and investment.*

This paper drew from findings of a research conducted in 2006/7 which examined different aspects of the mortgaging market in Uganda. This paper is a re-analysis of the characteristics and dynamics of land mortgaging among women mortgagers.

A cross-sectional tracer study of individuals and institutions who had mortgaged their land between 1980 and 2002. Data analysis involved univariate and bi-variate methods using frequency distributions, cross-tabulations and computation of various measures of central tendency such as the mean and the median. A simple logistic regression model was also fitted to identify factors associated with mortgage performance. Logistic regression was used because of the binary nature of the dependent variable- either 0 for on time payment and or 1 for non/late payment.

Results show that land mortgaging in Uganda is only 20% of formal landownership. Individual women involvement in the mortgaging market is 14% while that of joint involvement (man and woman) is 4%. Women were 5 times more likely meet their mortgage obligations than other categories of mortgagers, invested on the mortgaged land as well as running the business themselves. The study concluded that when women are empowered with collateral resources such as land titles, they can access credit and perform well economically.

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ACCROYNMS AND GLOSSARY

HIV/AIDS	Human Immune Virus/ Acquired Immune-Deficiency Syndrome
LA98	Land Act 1998
MFED	Ministry of Finance, Planning and Economic Development
MISR	Makerere Institute of Social Research
NEPAD	New Partnerships for Africa's Development
PEAP	Poverty Eradication Action Plan
SMEs	Small and Medium Enterprises
UBOS	Uganda Bureau of Standards

Glossary

Mortgage is granting the legal right to take possession of a house or some other property as security for payment of money lent.

A Mortgager is the owner of the title or collateral

A Mortgagee is the lender of the money (the bank or any other financial intermediary such as Housing Finance and other Building Societies)

Encumbrance is instrument placed on the title to forestall any other transaction after the lodging on either the mortgage or the caveat.

Rate of mortgaging is the number or proportion of titled landowners using titles as collateral to access credit finance.

Equitable mortgage is that mortgage where mortgager deposits the title with the mortgagee with the intent to create security.

Foreclosure is name given to the process whereby the mortgager's equitable right to redeem was extinguished and the mortgagee is left as the absolute owner of the property.



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Mortgaging in Uganda: The potential for enhancing economic opportunities in the Formal Sector

Introduction

Uganda economy is smallholder agro-based employing over 80% of the population which is mostly rural. Women contribute the bulk (over 70%) of the agricultural labour force. Traditionally proceeds from these activities mostly accrue to men as they perceive themselves as owners of the land which women cultivate and as heads of households. On the other hand, a substantial proportion of men engage in either the informal self-employment or as wage earners in urban centres. This situation notwithstanding, the changing trends such as rapid urbanization, poverty and increasing number of female-headed households has also contributed to an increasing number of women joining the commercial sector both formal and informal. Currently the proportion of women in the informal sector particularly in urban centres is almost the same as that of men¹. An increasing number of women are involved in trade, real estate and service sector; yet, the chances of accessing credit both in the formal banking and the informal sectors is premised on possessing tangible collateral in form of immovable and/or movable property.

In spite of the historical disfranchisement of women in terms of education and therefore unemployment, compounded by the inheritance practices which bestow family resources and capital to male siblings to the exclusion of female ones, there are always exceptions. In Uganda today, women involvement in the land market by far surpasses that of their counterparts in the region and this is partly due to the relatively higher educational levels in the first 10-25 years of independence and the fact that these educated women were likely to be found in areas with a history of women landownership. By 2002, formal women landownership in Uganda was 16% and nearly half of them (45%) were involved in the formal land market. The paper discusses women in the mortgaging sector in Uganda.

¹¹ See Snyder Margaret 2000: Women in African Economies: from Burning Sun to Boardroom= Fountain Publishers, Kampala.

earnings; the first is an agreement by which money is lent by a building society or any other financial intermediary for buying a house or other property with the property being the security.

The second is the act of pledging immovable and movable property in exchange for other forms of capital without forfeiting the rights in the object of exchange (property). It enables a property owner to raise other forms of capital (mainly loans) to undertake or continue with other economic activities. Formal mortgaging is an explicit transaction between banks and property owners in exchange for money.

Mortgaging enables the individual property owner to raise other forms of capital mainly credit to undertake or continue with other economic activities because of its impact on capital accumulation (Mugume: 2004). Access to formal credit is premised on the existence of negotiable security and availability of a reliable stream of income to service the loan. In Uganda's context, the most suitable negotiable security is a title deed arising out of registered land.

Land registration endows indisputable land ownership rights and a title is an instrument used to ascertain and confirm these rights. The title is also used in legal transactions, claims and devolution of the rights. Registered land is the preferred asset for collateral because of its peculiar characteristics; that is, it is immovable, difficult to permanently damage and has low maintenance requirements (Binswagner & Rosenzweig: 1986). The bank that lends money is referred to as the *mortgagee* and the borrower the *mortgager*. This paper is concerned with the second aspect of mortgaging.

Mortgaging in Uganda

The Ugandan National Development Framework, the National Development Plan (NDP) provides a direct channel to accessing credit to both small and medium enterprises (SMEs). With the adoption of liberalization policies in Uganda, the expectation was that financial mortgaging would increase. But this study carried out almost a decade after economic liberalization revealed a formal mortgaging rate of 8% of titled land (Sebina-Zziwa et al. 2004).

Ozlem (2004) attributes low rates of using land as collateral to two basic factors; one is the high interest rates associated with mortgaging (above 20% in Uganda) and which borrowers cannot afford. In other words, high interest rate makes it too costly for title owners' to sacrifice their land. The second is the uncertainty of returns to service the loan which is exacerbated by a business culture where rampant corruption makes business transactions too risky for the title owner to pledge the land. To many land title holders, mortgaging is analogous to sacrificing not only the land but also the premium

The third endemic factor for Uganda and indeed in other developing countries is the cost of bringing the land under legal title. In Uganda, land holding is still under customary tenure; that is, it bears no legal or technical description. Consequently, less than 30% of the land in the country is presumed to be titled.

odel (Opt Cit.) which relates loan repayment (dependent variables to identify the determinants of loan independent variables include; personal information of status, level of education, religion, number of dependants and main source of income), location of the land (rural-urban), loan size and number of land parcels owned by mortgager.

Objective and Conceptual framework

The overall objective of the study was to ascertain the prevalence, effects and implications of mortgaging in Uganda. The specific objectives were to:

- a) ascertain the prevalence and patterns of mortgaging for the period 1980-2002 by gender,
- b) ascertain the characteristics of mortgagers
- c) examine the kind of investments undertaken by mortgagers and the impact of the mortgage

The conceptual framework was that property rights are defined by their exclusivity, clarity and security². These rights give the owner the privilege to make decisions about the property. Rights also create incentives for people's behaviour concerning the property. In the case of land, the rights include the right of use for whatever benefits, to subdivide it into smaller parcels or and to transfer these rights to another person. Any action that alters any of these rights as is the case with mortgaging and caveating, impacts on the tenure security and exchange of the land (Stanfield: 2003).

According to Feder et al. (1988) and McEween (2001), land registration is key to conferring tenure security and that there is a linkage between land tenure security and investment.

Methods

This was a cross-sectional tracer study of individuals and institutions that had their land registered mortgaged between 1980 and 2002. Both primary and secondary data sources were used; Secondary data on land records collected in an earlier (2002) was re-analyzed to bring out the gender perspective. Primary data was collected (2006).

Due to the uneven and wide spatial distribution of the parcels under mortgages, the geographical scope of the study was limited to districts that recorded the largest number of mortgaged land. A Multi-stage Stratified Cluster Random Sampling Design was adopted.

A third of the study sample was drawn from Kampala district (representing urban areas) and the rest came from the districts of Masaka and Mbarara both having rural and urban characteristics.

The primary data was collected through tracing and interviewing of mortgagers using a semi-structured questionnaire.

Data analysis involved univariate and bi-variate analysis using frequency distributions, cross-tabulations and computation of various measures of central tendency such as the

² Exclusivity means being able to exclude others from using the land or being in possession, clarity is by land registration/ documentation while security emanates from the legal framework in place to protect the rights.



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Logistic regression model was also fitted to identify factors
ance. Logistic regression was used because of the binary
- either 0 for on time payment and or 1 for non/late

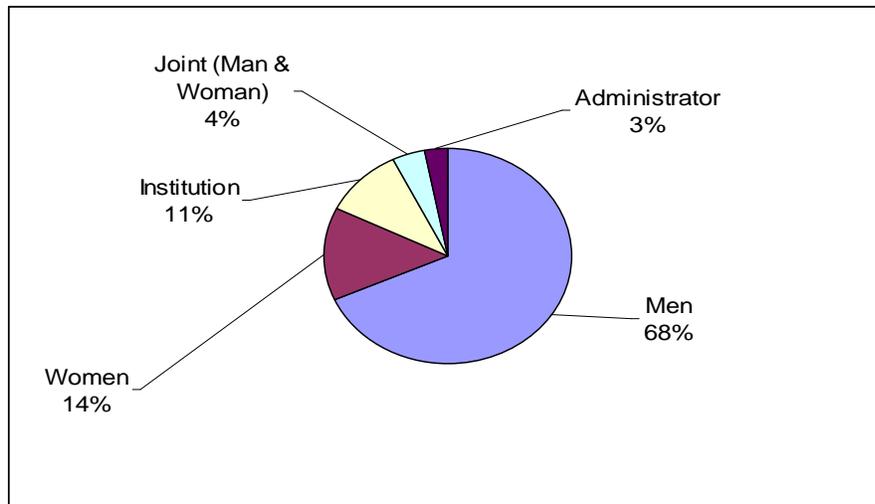
The effects of mortgaging on incomes and productivity were deduced from the self-assessment of the extent to which the mortgagers achieved their goals (the reasons for mortgaging) and the perspective of the mortgagers on the effect of the mortgage.

erred over the period of 22 years (1980- 2002) and 7247 age. Fifty percent of mortgaged titles were located in Kampala City and its immediate environs while the rest were located in two periphery districts.

Patterns of Mortgaging

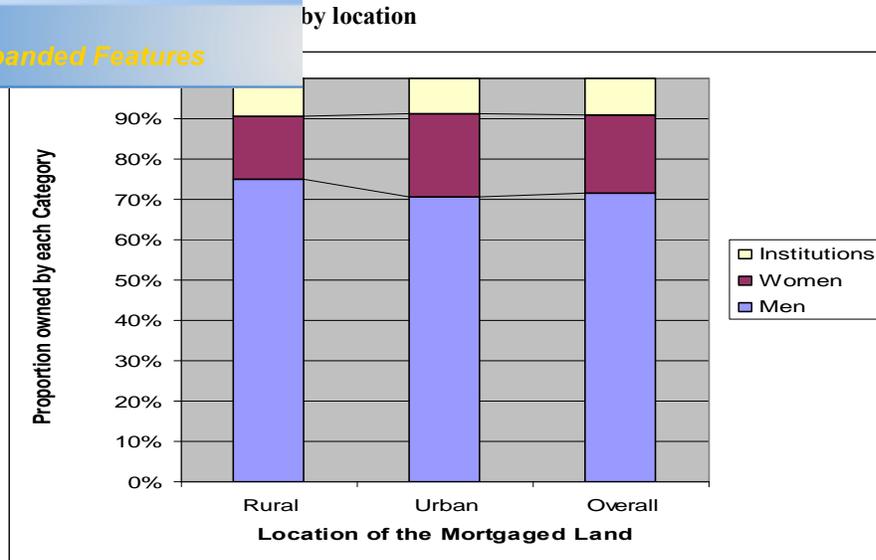
The analysis of patterns focuses on the category of the title holder and location of the land. The trend on the other hand focuses on the number of titles mortgaged per year. Figure 1 below presents patterns of ownership of mortgaged titles in Uganda for period under investigation.

Figure 1: Ownership of Mortgaged titles



Data Source: *Patterns and Trends of Land Registration and Ownership in Uganda study 2002*

The figure above shows that individual women’s involvement in the mortgaging market is 14% while that of joint involvement (man and woman) is 4%. It was also found that all mortgagers had more than one piece of land; 70% of them were men compared to 20% women. Figure 2 depicts ownership of mortgaged land by location.



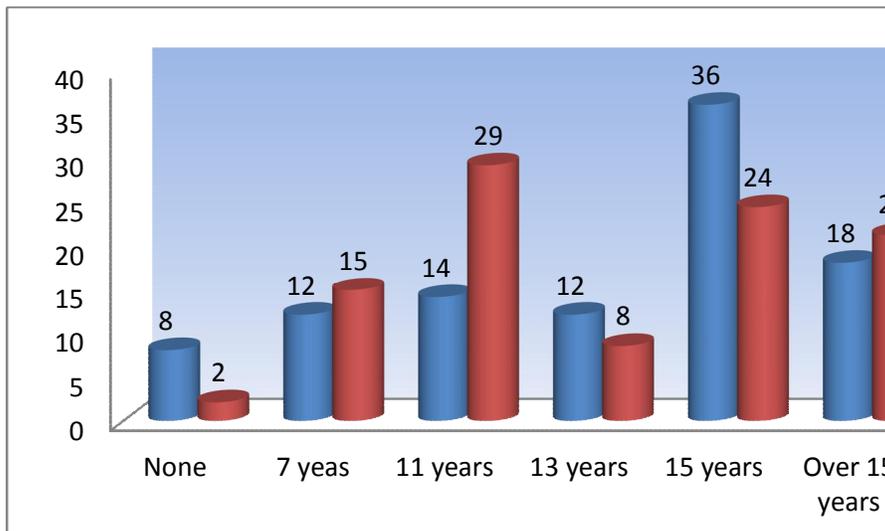
Source: Mortgage and Caveat study, 2006/7

The proportion of women mortgagers was higher in urban areas (21%) compared to rural areas (16%) which conforms to greater formal women land ownership in urban areas than in rural areas. This is due to the fact that in urban areas, land acquisition is mainly through purchase. Where women have the means, they can equally compete in the land market. In the rural areas on the other hand, land acquisition is mainly through inheritance therefore dictated by cultural norms which discriminate against property inheritance by women.

Figure 3(a) below shows that although the more years of education women attain the more they are likely to own land and engage in the mortgage market, having a title is paramount as women with no education in this study show. At least 8% of the women claimed not to having education, they were able to participate in the mortgage market.

Figure 3: Demographic Characteristics of Mortgagers

3(a) Level of education



Mortgaggers

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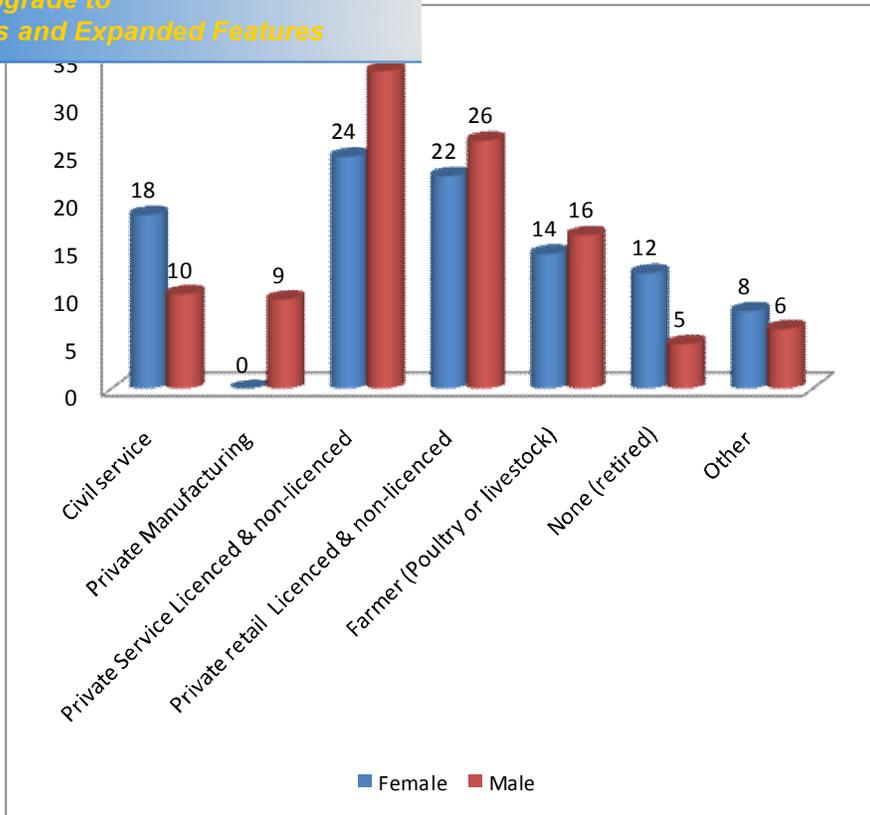


Figure 3 (b) confirms that women in the civil service with a stable source of income as well as those retired from government were more likely to participate in mortgage market.

Overall however, mortgaging is mainly undertaken by self-employed landowners located in urban areas. It also collaborates with the Structural Adjustment Policies which brought in the downsizing of the

civil service and forced many into early or voluntary retirement.

3(c): Marital Status

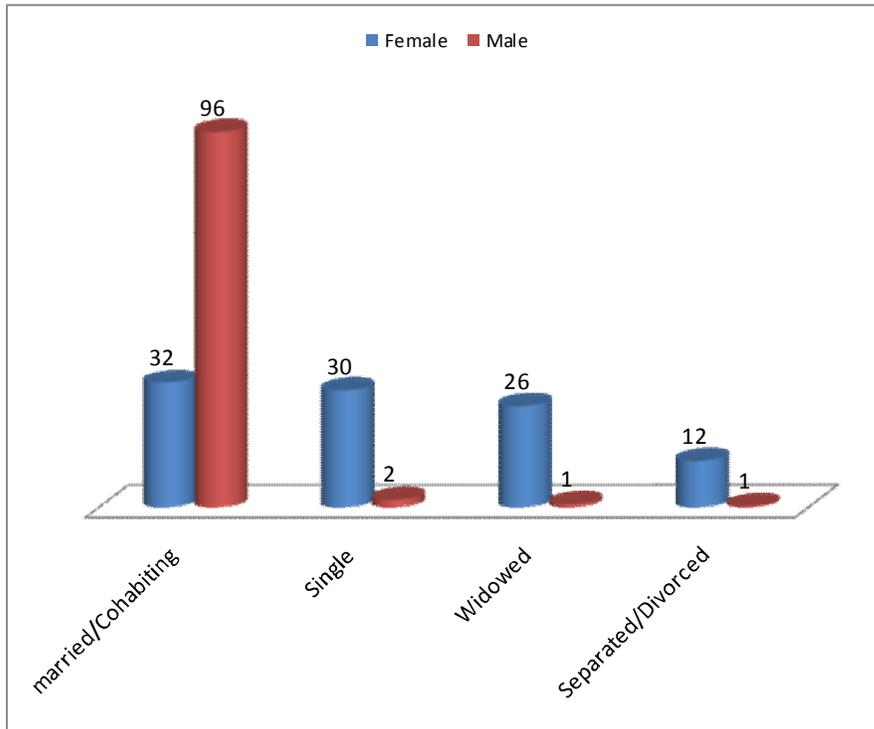


Figure 3 (c) shows that unaccompanied women were 2 times more likely to participate in the mortgage market than those who were married.

study, 2006/7

me were business located elsewhere other than the mortgaged land (34%). Twenty one (21) per cent of the mortgagers were women landowners and mostly in urban areas. Table 1 presents details of the location and land t by gender.

Table 1: Patterns of Individual Land Mortgaging by Gender

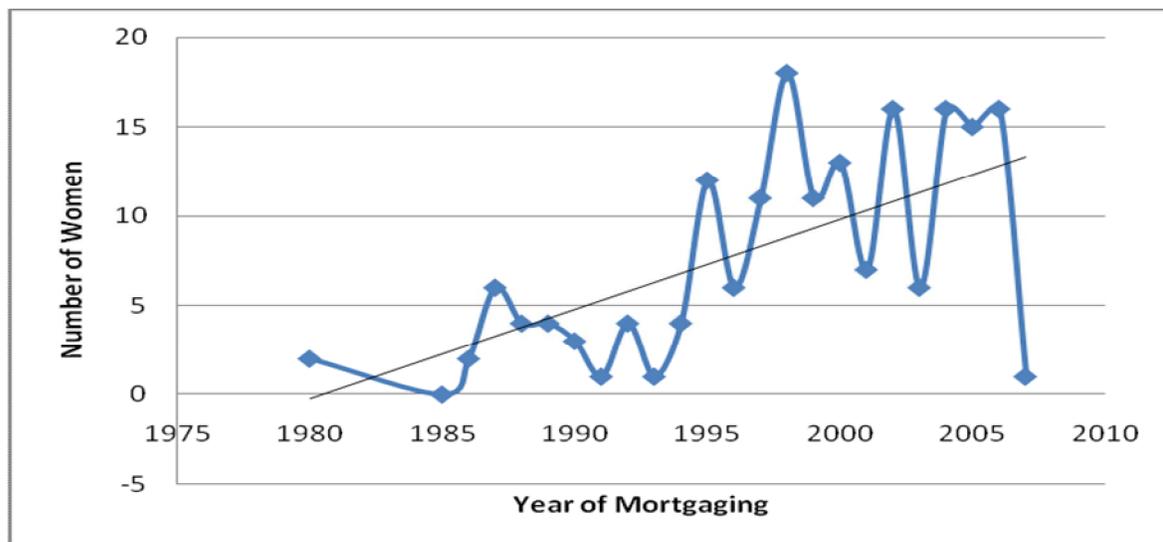
Location	Male	Female	Overall (n=335)
Urban (n= 267)	68%	32%	80%
Rural (n=68)	74%	26%	20%
Total (n=335)	69%	21%	100%
Number of parcels owned			(n = 330)
Only 1 parcel (n=187)	62%	38%	56%
2-3 parcels (n=111)	78%	32%	34%
Above 4 parcels (n=32)	75%	15%	10%
Total (n = 330)	69%	31%	100%

Source: Mortgage and Caveat study, 2006/7

Trend of Mortgaging

The trend of mortgaging was rising steadily in urban areas but has remained static in rural areas hence restricting investment in rural areas where the majority of the women live. It was noted that some respondents reported participating in the mortgage market over a long period. The trends are depicted in figure 4.

Figure 4: Trend of Mortgaging by Women



Source: Mortgage and Caveat study, 2006/7

Use the loan and major things accomplished with the funds borrowed

	Female	Male	Things accomplished	Female	Male
Construction/Renovation of own residential home	29%	11%	Real estate	62%	41%
Construction/Renovation of rental/commercial structures	8%	6%	Real estate	=	=
Starting up/improve business	43%	61%	Business/trade	28%	49%
Purchase of buildings	4%	4%	Real estate	=	=
Start-up/improve agricultural enterprise	6%	8%	Agricultural enterprises	10%	16%
Housing Mortgage-sale of company houses	8%	4%	Plant & machinery	10%	9%
Acquisition of plant and machinery	2%	3%		=	=
Other (school/university fees/ticket)	0%	4%	Other (education/travel)	12%	15%

Source: Mortgage and Caveat study, 2006/7

The reasons for mortgaging and actual use of the borrowed funds give an indication of the allocation and production decisions of the borrowers. These two aspects were of interest to the investigation.

It was found that the predominant reason advanced for mortgaging for both women and men was ‘starting or improving (recapitalization) of a business’. Women were also two times more likely to secure loans for construction of homes which are usually turned into rental units and/ simultaneously used as residential as well as business such as health clinics, saloons or retail shops as evidenced by the responses as to what was accomplished with the borrowed funds. This was equally true for the men borrowers; real estate is a very lucrative business because of the increasing population in Kampala mainly spurred by rural to urban migration.

Effects and Implication of Mortgaging

On the assumption that borrowers are able to make rational economic decisions, several variables were used to determine the effects of mortgaging including retention of title, repayment rates, achievement rates and respondent self-ranking of the success of the undertaking.

Analysis of determinants of mortgage performance was done using Ozlem’s model³. The dependent variable (*mortgage performance*) is a binary variable which takes on a value of “1” if the mortgager paid back the loan as scheduled otherwise it is assigned “0” (if the loan was paid not paid or paid late).

³ See conceptual framework

fitted against a number of socio-economic variables included; main source of household income; education level, mortgager; religion of household head; household size; owned by mortgager and loan size. The results of the model are presented in Table 2 (Annex)

These results show that only two factors significantly influence mortgage performance and these are the sex and marital status of the mortgager. The model shows that women are 5 times more likely to adhere to the mortgage terms compared to the men (and the result is statistically significant at $p = 0.05$). Results also show that married mortgagers were 3 times more likely to adhere to the mortgage terms compared to the non-married (including the never married, divorcees as well as widows and widowers). This result is statistically significant at $p = 0.1$.

Although not statistically significant, the results of the model indicate that mortgagers with many pieces of land are less likely to pay back than those with one piece. It is also the case that urban mortgagers are more likely to perform better than rural ones and mortgagers with businesses located on the mortgaged land are more likely to perform better than those with businesses located off the land. Lastly, borrowers with higher education are more educated are more likely to perform better than those with less education.

The respondents were asked to rank extent to which they accomplished their goals (reasons for borrowing) on a scale ranging from 0 for no achievement to 10 for full realization. Results showed that overall; the median rating was 7 or 70% and a mean of 6 or 60%. There were no differences between the sexes. However, women's perception of the loan impact was generally higher than that of men by 16%, in terms of improvement in investments as well as completion of projects.

of land facilitates the mortgage market and investment.

This study established that the 14% women engagement in the mortgage market is indicative of a potential for their participation economic opportunities in the formal sector. Women can equally compete for investment opportunities if they are empowered with the basic requirements for securing credit.

It is therefore recommended that programs aimed at guaranteeing security of tenure such as the Systematic Demarcation of land should pay special attention to gender. In addition, this systematic demarcation program should be speeded up to enable other women landowners under customary tenure to secure titles that would open doors for them to engage in the mortgage market.

2. Women and married mortgagers are more likely to perform better in mortgage servicing. Other factors which are associated with better performance include a high level of education, land located in urban areas, businesses housed on the mortgaged land while greater land endowment is associated with poor mortgage performance.
3. On the whole, mortgagers achieved their intended objectives (median success rating was 70%) through greater investment leading to higher income and improved welfare. This success rate provides important lessons for government, financial institutions and the general public regarding mortgaging both as a source of empowerment for women as well as enhancing their participation and contribution to the monetary economy.
4. Women were 5 times more likely meet their mortgage obligations than other categories of mortgagers, they invested on the mortgaged land as well as running the business themselves. This means that women are more reliable clients for the lending institutions and could prove to be key players in the economic growth of the country.

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g Mortgage Re-payment⁴

	Level of Significance	Odds Ratio
1. Main source of income		
Own/spouse's salary		1
Business on mortgaged land	.2400	2.0364
Business elsewhere	.3804	1.5852
Other	.7073	1.2958
2. Education Level		
None/Primary (Ref. category)		1
Secondary O and A level	.6614	1.3013
Tertiary	.2045	2.3800
3. Marital status		
Married/co-habiting (Ref. category)		1
Not married	.0665	0.2532*
4. Age		
40 years and below (Ref. category)		1
41-50	.6527	0.7207
51-60	.9783	1.0190
Over 60	.4393	1.9113
5. Sex		
Male(Ref. category)		1
Female	.0225	5.3322**
6. Location		
Rural(Ref. category)		1
Urban	.1938	1.9069
7. Religion		
Catholic (Ref. category)		1
Protestant	.9118	0.9545
Islam	.7293	1.2268
8. Household Size		
1 - 4(Ref. category)		1
5 - 8	.8007	.8453
Over 9	.6032	.7012
9. No. of parcels owned by borrower		
Only 1 parcel(Ref. category)		1
2 - 3 parcels	.4300	.7247
Over 4 parcels	.4640	.5828
10. Amount borrowed		
Less than 5 million		1
Between 5 and 20 million	.5001	.7207
Above 20 million	.5405	.7090

Source: Mortgage and Caveat study 2006/7

⁴ Significance level of up to 90%