Routledge
Taylor & Francis Group

Journal of Property Research

ISSN: 0959-9916 (Print) 1466-4453 (Online) Journal homepage: https://www.tandfonline.com/loi/rjpr20

Secure property right as a determinant of SME's access to formal credit in Ghana: dynamics between Micro-finance Institutions and Universal Banks

Daniel Domeher, Raymond Abdulai & Eric Yeboah

JOURNAL OF PROPERTY RESEARCH, 2016
VOL. 33, NO. 2, 162–188
http://dx.doi.org/10.1080/09599916.2016.1160948

Routledge
Taylor & Francis Group

Secure property right as a determinant of SME's access to formal credit in Ghana: dynamics between Micro-finance Institutions and Universal Banks

Daniel Domeher[a], Raymond Abdulai[b] and Eric Yeboah[c]

[a]Department of Accounting and Finance, School of Business, Kwame Nkrumah University of Science and Technology (KNUST), Kumasi, Ghana; [b]Built Environment and Sustainable Technologies Research Institute, Liverpool John Moores University, Liverpool, UK; [c]Department of Land Economy, Kwame Nkrumah University of Science and Technology (KNUST), Kumasi, Ghana

ABSTRACT

Does registered land title help to improve tenure security and enhance one's chances of securing a loan from formal financial institutions? This question continues to sharply divide opinions among academics, policy-makers and international development partners. The long running debate on the subject of 'Property in the Commons', which serves as the ideological origin of what has become known as 'Washington Consensus' in contemporary times claims that there is positive correlation between the possession of registered land title and access to credit. However, this has often received considerable rebuttals. Even if the 'Washington Consensus' is accepted, the argument is still laced with some fundamental difficulty because it inherently assumes and treats financial institutions as a homogenous class of business. Yet financial institutions exhibit greater diversity in their operations and decision-making process. This paper attempts to contribute towards developing improved understanding between the 'secure land title and access to credit relationship' by disaggregating financial institutions into Micro-finance and Universal Banks (UBs) and examining what role secure land title play in granting credit from the perspectives of these two categories of financial institutions. To achieve this, field level investigations were conducted amongst officials of both Micro-finance Institutions (MFIs) and UBs in Ghana using structured questionnaires. A total of 200 questionnaires – 100 each to MFI and Universal Banks were administered of which a response rate of 51 and 57 was, respectively, achieved. The data were analysed using various non-parametric statistics. The study amongst other things established that UBs and MFIs differ in their opinions on how important secure titles are in the lending process and the nature of the influence they can exert on the final lending decision. It was established that both categories of lenders do regard secure titles as important but whether or not it will influence their decision to accept a given landed property as collateral varies across lender types.

ARTICLE HISTORY
Received 3 September 2015
Accepted 29 February 2016

KEYWORDS
Access to formal credit; Ghana; Micro-finance Institutions; secure property titles; SME's; Universal Banks

CONTACT Daniel Domeher ddomeher.cass@knust.edu.gh, dommedann@yahoo.com
This article was originally published with errors. This version has been corrected. Please see Erratum (http://dx.doi.org/10.1080/09599916.2016.1179480).

1. Introduction

The importance of landed property to the socio-economic development process is well documented in the literature (North & Thomas, 1973; Rosenberg & Birdzell, 1986). Landed property is believed to constitute between 50 and 70% of the national wealth of developing countries (Bell, 2006). Majority of the people especially in the developing world are said to make a living out of land (World Bank, 2003). As a result, securing one's rights to such property is a critical matter to the very survival of the people. The International Fund for Agricultural Development (IFAD, 2008) defines property right security as the enforceable claims on property – it refers to people's recognised ability to control and manage property. In other words, security refers to one's perception that his/her property rights will be recognised by law and, especially, by members of the society and protected when there are disputes or challenges to such rights (Abdulai & Domeher, 2012; FAO, 2005). Other commentators have called for a more expansive interpretation of the concept of tenure security. According to Jean-Louis Gelder (2010, as cited in Obeng-Odoom & Stilwell, 2013), land tenure security arise from the concurrent existence of three factors. These are the legal security, de factor security and perceived tenure security. These three ingredients together ensure that there is legal clarity about land right as a result of a clear definition of one's right or interest in the land. When all these are present, it means, people are protected from losing their land arbitrary. Indeed unjustifiable attempt to curtail one's security of tenure can trigger enforcement action from the state or other designated authority (Abdulai & Domeher, 2012). Similarly, Obeng-Odoom and Stilwell (2013) have reiterated the need for a more holistic conceptualisation of the concept of tenure security. They argue that the dominant narrative on the subject of security of tenure is narrow. Unsurprisingly, development policy interventions which are grounded on such incomplete diagnosis of the concept have proved to be defective and unresponsive over the years. As a result, there is an urgent need for a shift towards a broader conceptualisation of security of tenure that addresses the legal, economic and social aspects of landholding (Obeng-Odoom & Stilwell, 2013).

Security of land tenure involves two forms of validation or recognitions – state validation by legal recognition and social acceptance at the local level. These two forms of validation must be present to strengthen tenure security. Without recognition at the local level for instance, legal recognition alone may only succeed in making otherwise legitimate rights illegal whilst local recognition alone may be weakened without the backing of the national legal framework. In the absence of legal recognition, many legitimate property owners may be cut off from the formal economy. Integrating local values on property ownership into the national legal framework will be the way to achieve both forms of recognition.

In the quest to promote security of property rights, many have proposed property rights/title registration as the panacea to the problem of insecure rights to property. The provision of formal property titles is thus seen as a symbol of security and is expected to influence economic growth and poverty reduction in the developing world. In a typical customary land ownership context, documentation was historically alien to the indigenous communities. The introduction of title registration and other forms of documenting land rights are remnants of colonial era which is grounded on the casual assumption that lack of documentation results in tenure insecurity (Agbosu, 2000). It is worth noting that titling and other forms of registration only adjudicate and document the nature of rights and interest which exist in land. Therefore, outcome of title registration initiative is more likely to mirror ownership dynamics on the ground. It is therefore simplistic to equate formal titles to tenure security. Indeed, there are several reported cases where titling has re-ignited latent land disputes and facilitated elite capture and have in the process exacerbated the vulnerabilities of the already marginalised (Bromley, 2008).

Despite these obvious potential unintended adverse outcomes associated with title registrations in developing countries, donors from western countries and international development organisations such as the IMF and the World Bank continue to prescribe it. They argue that titling enhances tenure security, helps to secure investments, supports land markets to evolve more efficiently, improves access to formal credit and helps to reduce poverty and ultimately expedites economic development (Payne, Durand-Lasserve, & Rakodi, 2009; UNECE, 2005; World Bank, 2006). The economic impact of formal property titles is derived from the assurance effect – certainty that property owners will be able to reap the fruits of their investment and the collateralisation effect – the ability of property owners to use their properties as collateral for credit (Brasselle, Gaspart, & Platteau, 2001; de Soto, 2000). With secure property titles, property owners who do not have funds to invest could obtain credit to undertake their desired investment activities through the collateralisation effect. Property registration through its security enhancing ability is further said to improve on the collateral properties of land; making it a better, more secure and acceptable form of collateral that can be used to secure investment credit (de Soto, 2000).

The renewed attention on the role of titling in ensuring access to credit which in turn improves economic development could be credited to the work of the Peruvian Economist, Hernando de Soto. In his book *The Mystery of Capital: Why Capitalism Triumphs In The West and Fails Everywhere Else*, de Soto (2000) attributes the existence of high levels of poverty and underdevelopment in the developing countries to the fact that a very small proportion of property ownership is registered. He further posits that, the western world is highly capitalised and developed because of the existence of comprehensive property registration systems. To further reinforce his proposition, de Soto provides this illustration:

> The single most important source of funds for new businesses in the United States is mortgage on the entrepreneur's house … [when contrasted with developing economies] … the poor inhabitants do have things but they lack the process to represent their property and create capital. [People] have houses but no titles, crops but no deeds … [and this explains why] people have not been able to produce sufficient capital. (de Soto, 2000, p. 7)

It has been further argued that having formalised land titles could be important in resolving land-related contestations. This is because, through the process of titling, property owners are issued with formal titles which are supposed to be prima facie evidence of ownership (Land Title Registration Law, 1986). Thus in times of disputes, the possession of formal titles do facilitate the dispute resolution process through the formal court system.

In the developing countries, a large proportion of people are employed in the SME sector (Abor & Quartey, 2010). Yet this sector faces serious financing constraint that limits its ability to contribute meaningfully to economic growth. In the Ghanaian SME sector, a financing gap exists where the demand for finance by small businesses far exceeds the amount made available by formal lending institutions, the imbalance between the demand and supply of credit has resulted in the situation where most of the loan applications are outrightly rejected or partially granted. For example, it has been established that only 28% of loan applicants obtained the full amount of the loans they wanted (Domeher, Frimpong, & Mireku, 2014). Stated differently, 72% of SME's do not have access to the required credit.

The above statistic is quite revealing and underscores the need for urgent action in tackling the financing problems faced by small businesses not only in Ghana but the developing world at large.

There are several schools of thought regarding the reasons for the huge financing gap often reported amongst small businesses. In the developing world especially, a lot of emphasis have been placed on the lack of collateral in trying to explain the existence of this financing gap. For instance, an estimated 51% of all firms refused credit in Africa are said to be attributable to insufficient collateral; in East Asia, Eastern Europe and Central Asia, Latin America and the Caribbean as well as South Asia, the estimates stand at 70, 72, 39 and 72%, respectively (Fleisig, Safavian, & de la Pea, 2006).

The dead capital thesis of de Soto (2000) added a further twist to the issue of collateral. He argues that the problem of lack of collateral should not be equated to the lack of assets per se but rather the absence of secure property rights over landed property which remains the most valuable asset of most people in the developing world. In any collateral-based banking system (more prevalent in the developing world), Deininger (2003) argues that secure property rights is a basic requirement for access to funds by businesses and households and this argument is re-enforced by Llanto (2007). These arguments have led to several investigations into the secure property rights and access to credit relationship. Yet most of such studies in Africa and other parts of the developing world have failed to establish a clear link between secure property rights and access to funding (Brown et al., 2006; Carter & Olinto, 2003; Galeana, 2004; Gilbert, 2002; Petracco & Pender, 2009; Place & Migot-Adholla, 1998). That notwithstanding, the argument continuous to gain popularity amongst various governments and development partners leading to the massive roll-out of various property rights registration programmes around the developing world. Despite the considerable financial and technical investment, the anticipated result of improving access to credit remains largely unrealised (Harrigan, 2001).

Even those studies that have established a positive relationship between secure property rights and access to funds (Boucher, Guirkinger, & Trivelli, 2005; Feder, Onchan, & Chalamwong, 1988) often treated financial institutions as a monolithic unit. Results from such studies therefore significantly fall short in helping to understand the influence of secure property rights within different cleavages of financial institutions such as Micro-finance Institutions (MFIs) and Universal Banks (UBs). This paper aims to help in bridging this knowledge gap by empirically addressing these searching questions – do MFIs and Universal Banks rate the possession secure titles equally important in taking their respective lending decisions? Does the possession of secure titles have the same influence on the loan terms offered borrowers by MFIs and Universal Banks? The rest of the paper is organised as follows: Section two and three are devoted to the literature and methodology, respectively. Whilst section four presents and discusses the results, section five presents the conclusions and policy implications of the findings.

2. SME financing gap

Small- and medium-sized businesses have and continue to play a critical role in the economic development of most economies worldwide. It is common knowledge that in the developing world in particular, small businesses are tagged as the 'engines of growth'. From small holder peasant agriculture, petty trading to hawking, small businesses have been central in the economic development of several developing countries, often serving as the primary source of livelihoods. It has been estimated that SMEs account for over 60% of GDP and over 70% of total employment in low-income countries, while contributing over 95% of total employment and about 70% of GDP in middle-income countries (Ayyagari, Beck, & Demirgüc-Kunt, 2003).

SME's are expected to drive economic development. According to the celebrated economist and philosopher, Amartya Sen, economic development should not only be gauged using parameters such as GDP and other statistical indicators. In his work, 'Development as Freedom', Sen (1999) posits that economic development should liberate people from such ominous conditions such as unemployment and slums among others. However in Africa, these symptoms of under development remain pervasive (IMF, 2015; UN-Habitat, 2015), a situation which has prompted some commentators (such as Fjose, Grünfeld, & Green, 2010) to argue that SME's are largely failing to live up to expectations. Blaming SME's for their inability to significantly contribute to economic development, without examining the challenges which confront them may be convenient but simplistic. SME's require an enabling environment to thrive, with access to credit being a major factor. Worryingly, access to credit for further investment and expansion, especially from formal financial institutions remains beyond the reach of many SME's (Domeher et al., 2014; Fjose et al., 2010).

The theory of credit constraint is well discussed in the literature (Stiglitz & Weiss, 1981). It is argued that the presence of imperfect information creates uncertainties in the credit market and negatively affects the lending decision-making process. Though there are several ways of mitigating this information imbalance between lenders and borrowers, collateral is often regarded as the most effective tool for fighting the twin problems associated with information asymmetry (adverse selection and moral hazard). That notwithstanding, the taking of collateral in itself is also constrained by information asymmetry. In the developing world, property ownership cannot be easily traced or validated; one cannot identify who owns what and addresses are difficult to verify (de Soto, 2000). For every asset that is to be used as collateral, lenders require essential information not only on its value or quality but most importantly its ownership and any third party interest in it.

When property ownership information is not publicly available for easy verification, emphasis on collateral will rather create adverse selection and moral hazard where potential borrowers are most likely to present to the banks, properties that are under ownership disputes or some forms of encumbrances. In such a scenario, since the potential borrower's claims to the property may be fraudulent or in dispute, incorporating the property into a loan contract will not provide the repayment incentive required to avoid moral hazard. In a nutshell, information asymmetry on property ownership weakens the ability of collateral to reduce the credit constraint problem. As far as landed property is concerned, property rights registration solves the problem of information asymmetry on property ownership and allows lenders to accept landed property as collateral and all other things being equal eases the credit constraint problem. Registered property titles are important because they generate useful signals about the borrower's credit worthiness not only by merely serving as collateral but by providing information on unobservable borrower characteristics (Dower & Potamites, 2005).

Apart from making credit available, the possession of registered property titles is believed to have an influence on the terms and conditions of the credit offered. It is argued that secure property titles through its ability to raise land values and increase its liquidity could influence credit terms by increasing the amount of credit that is made available to borrowers as well as reducing the interest rate charged and enhancing other conditions. Field and Torero (2004) note that the lack of secure titles to property creates mistrust among lenders with regard to the validity of ownership rights and increases the cost of verification to prohibitive levels. This could in turn affect the cost of credit. Figure 1 below provides a summary of the link between secure property rights and access to credit.

Therefore, the key argument is that, for secure property titles to influence access to credit by SMEs, it must work through making landed property more acceptable as a form of collateral. Also, secure title should induce more favourable terms for potential borrowers. But how does this play out within MFIs and UBs? This is examined in the ensuing section.

2.1. Access to credit – a comparison between Universal Banks and MFIS

Universal Banks and MFIs represent some of the main sources of credit to households and firms. Increasing financing opportunities to firms and households helps them to take greater advantage of growth opportunities. Ehrmann, Leonardo, Jorge, Sevestre, and Worms (2003) identify credit from the banks as the most important source of external finance for businesses. Despite this argument, it is observed that the traditional banks and capital markets are often limited to individuals who are already well-off as well as the large business entities who can often meet the various loan requirements such as providing collateral. This leaves the sectors that need finance the most (SME sector) with finance limitations and thus stifling growth and welfare of society (Claessens, 2006)). Traditionally, Banking institutions tend to shy away from lending to the SMEs because they are often perceived to be highly risky (Japan International Cooperation Agency, 2008). This perception often results in the banks implementing very strict collateral requirements when lending to such businesses. Given the high poverty levels and the associated lack of asset ownership, many potential borrowers who are unable to meet the collateral requirements cannot access credit form the banks.

Unfortunately, borrowers with property to pledge as collateral also lack formal titles restrict the acceptance of such property as collateral, thus further contributing to financing constraint in a traditional banking system. The formal banking system has thus failed to adequately address the financing needs of the poor and the SME sector. As a result, SMEs mostly rely on informal sources to fund their business activities (Kakuru, 2008). It is within this context that microfinancing becomes critical. The development of microfinance has

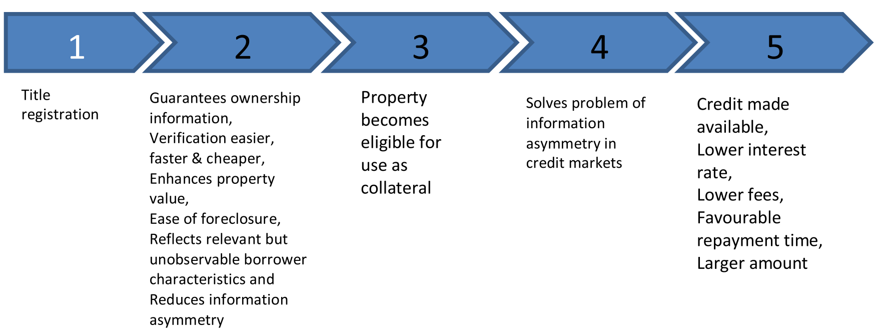

Figure 1. The link between secure property titles and access to credit. Source: Domeher (2012).

been a response to deal with the failure of the traditional banking system which continues to exclude the poor and SME sector from receiving financial services (Aryeetey, 2008; Sonne, 2010). MFIs specialise in the provision of small size financial transactions to poor households and businesses that could otherwise not have access to the bank system with the help of character-based and other specialised lending techniques (Aryeetey, 2008). According to Cull, Demirguc-Kunt, and Morduch (2006), MFIs are more flexible with collateral requirements than banks, for instance, MFIs regard collateral as a tool for deterring loan default and not a tool for recovering loan as in the case of the banks, therefore, they are more willing to accept most assets that can adequately deter default. MFIs incorporate some of the features of informal lending into their credit schemes through the use of the solidarity group strategy and providing a character-based substitute for collateral (Berger, 1989).

Microfinance works on the principle that instead of the people going to the bank, the bank should rather go the people. Furthermore, while traditional banking is based on the principle of 'the more you have the more you can get' the main principle of the Grameen bank model of microfinance is one of 'the less one has, the higher the priority one receives regarding the granting of credit' (Bahar, 2001). Microfinance may take various forms. One is the joint liability scheme first introduced by Grameen Bank in Bangladesh. Here small groups of individuals are formed and each group member acts as a guarantor for the other group members; (Sonne, 2010). In such instance, group solidarity is leveraged as a guarantee for credit, thus minimising the need for physical asset which may be out of the reach of many SME's and households. This is because the group lending model involves a self-selection process which is used as a screening device and the inbuilt peer pressure and monitoring, respectively, reduces moral hazard and enforces loan repayment (Morduch, 1999). The solidarity group approach also reduces transactions cost as it permits the bundling of very small loan amounts dealt with in one transaction (Berger, 1989). Each group plays an active role in the decision-making process by selecting the beneficiary participants and deciding the amount of the loan subject to limitations on the amount and number of beneficiaries set by the institution. In this MFI model of lending, failure to repay on schedule affects each member's chance of getting any future credit, there is thus the strong incentive to keep up with repayment. Hence the model only relies on social collateral in the form of group solidarity and accountability.

MFIs also adopt a progressive approach to lending as a key for building long term relationships and trust to ensure continuous flow of funds to clients. Such relationship lending begins with smaller loan amounts which increase with each successive round of repayment success (Morduch, 1999). Clients have the assurance that the successful repayment of each loan received will pave the way for them to receive much larger loan amounts in the future. The repetitive interaction with the clients helps MFIs build a database of information on clients' creditworthiness. It is in line with this that Morduch (1999) further observes that the repetitive nature of transaction as described above helps overcome asymmetric information and facilitates access to credit by the small businesses. It is thus clear that the mode of operation of traditional banks differs from that of the MFIs. Such inherent differences have implications for credit access. Therefore when arguments are made regarding SMEs access to credit, they should be placed properly within the context of the kind of financial institutions under considerations.

3. Methodology

This study compares the role of secure property in the lending decision of MFIs and Universal Banks in Ghana. the quantitative research paradigm was considered more suitable for this study as it allows the researcher to test hypothesis/theories for relationships between various variables of interest (in this case, the relationship between the possession of formal title, type of lending institution and credit access) (Creswell, 2009; Saunders, Lewis, & Thornhill, 2009) A range of key stakeholders was engaged through structured questionnaire during field level surveys conducted in 2012/2013. During this period, the industry exhibited a mixture of various macroeconomic challenges and prospects which generally led to a rise in the loans portfolio of the entire industry. The extract below summarises the state of the market at the time.

> The [Ghanaian Banking] Industry operated in a high interest rate environment for the best part of fiscal year 2012 shored up by government's rather steep demand for liquidity, which led to a steep rise in Treasury bill rates, compared to the 2011 levels. In Ghana, the bulk of SMEs are within the Services sector, particularly hotels, restaurants, transport and storage business and real estate. These together contributed 49.3% to GDP in 2012, having grown at an annual rate of 8.8% over its 2011's contribution. Gross domestic product (GDP) growth slowed from 14.4% in 2011 to 7.9% in 2012. Broad money supply including foreign currency deposits (M2+) grew by 24.3% in 2012, compared with 33.2% in 2011. Net Foreign Assets (NFA) of the banking system declined by 9.1% in 2012, compared to a growth of 37% in 2011. Headline inflation inched up from 8.6% in 2011 to 8.8% in 2012. The average bank lending rates, however, declined from 25.9% in December 2011 to 25.7% in December 2012, effectively narrowing the interest rate spread to 13.2% in December 2012, compared with 18.2% in the same period of 2011. Net industry loans and advances grew by GH¢3.9billion (44%) compared to 2011. Notwithstanding that interest rates on treasury bills increased from 10.3% in 2011 to 23% as at end of 2012, the relative proportion of bank investment in cash and liquid assets as a percentage of industry operating assets declined as all the banks grew their loan portfolios in 2012. We believe the strong growth in credit in 2012 after a downward trend over the last four years is driven by demand side factors, a reflection of banks' expectation of short to medium term economic prospects as well as renewed confidence of banks in their own internal credit appraisal and monitoring processes. (Pricewaterhouse Coopers, 2013)

The survey was thus conducted at a period where granting of credit by banks and other financial institutions was fairly vibrant. The survey involved Credit Officers, Loans Mangers and Branch Managers from financial institutions selected from the Ashanti region which is one of the 10 administrative regions in Ghana. The choice of this region was based on the fact that it is one of the biggest commercial centres with several active Universal Banks and MFIs. The Ashanti region is in the middle belt and has population characteristics reflecting a good blend of the north–south characteristics. It is the most populated region in the country according to the 2010 census (Ghana Statistical Services, 2012). Furthermore, it was one of the only two regions (greater Accra and Ashanti regions) in the country covered by functional land title registration (admittedly Savelugu in the Northern region and Ewutu Senya in the central region had been declared as title registration districts, however title registration activities had not taken off at the time). Of the two regions, the Ashanti region was chosen for convenience given the researchers knowledge of the region.

The institutions involved were stratified into UBs and MFIs. The participating financial institutions were identified based on information provided by the Bank of Ghana (BOG) on the institutions licensed to operate (Bank of Ghana [BOG], 2012). These institutions have branches within the Kumasi metropolis. The branches that were selected were those easily accessible to the researcher by way of proximity. They were mostly branches located in the Central Business District, Ahodwo area, Suame Magazine area and those located around the Ejisu-KNUST area. The individual respondents (identified above) from the selected institutions were purposively sampled since they constitute the key informants on issues of lending. The information from the BOG website indicates a total of about 22 UBs, six savings and loans institutions; and 25 rural banks were operational in the Region (BOG, 2012). These institutions had various branches across the region. One hundred questionnaires were distributed to the target officials (credit officers, loans mangers and Branch managers) in the various branches of the 22 Universal Banks. For 12 of the 22 banks, the researcher visited 2 branches each. For the remaining 10 branches, only one branch each was visited because proximity issues. At each of these branches visited a maximum of three questionnaires were distributed to the relevant officials (in some cases fewer than 3 questionnaires were distributed). In the case of the 25 rural banks, 20 of them were visited (one branch each). A maximum of three questionnaires were distributed at each branch visited. Two branches each of the six savings and loans institutions were also visited and at each branch a maximum of 3 questionnaires were also distributed. In all, a total of 100 questionnaires also were distributed to the rural banks and savings and Loans institutions together classified in the study as MFIs. The researchers visited various branches of these institutions and approached the relevant categories of officials with the questionnaire; official who expressed interest were subsequently allowed some days to complete the questionnaire and return it to the researcher on an agreed future date. Out of this, a response rate of 57 and 51% was, respectively, achieved for Universal Banks and MFIs.

Admittedly, the use of convenience sampling in the study as described above could have introduced some form of biases. However, this potential bias was offset by the fact that these financial institutions often have standardised procedures in making their lending decisions. Hence the particular branch chosen to participate in the study did not really matter much. Secondly, the questionnaires were structured to ensure internal consistency in the responses. This thus ensured the reliability of the responses. The survey solicited the views of participants (using a likert scale) on the eligibility of landed property for use as collateral in relation to the possession or non-possession of formal property titles. To do this, respondents were first asked to indicate how much they agree or disagree that unregistered property is eligible for use as collateral (using a 5 point scale: 1 = strongly disagree and 5 = strongly agree); to check for consistency in the responses, participants were later asked to indicate which kind of documents they accept as proof of property ownership and these responses compared. This served as an inherent control mechanism to validate responses. Respondents were also asked to indicate in order of importance which attributes they look out for when accepting landed property for collateral purposes (using a six-point scale where ranks of five and above meant the attribute is critically important and cannot be ignored, from 3 to 4 meant attribute may be ignored though important and below 3 meant the attribute was of least importance and should be ignored).

The questionnaire further sought to sample opinions on the nature of the influence that the possession of formal titles may have on credit access for investment purposes. In effect, the study sought to explore whether or not the possession of secure title increases the likelihood of obtaining credit and whether the terms of such credit are more favourable compared to those without secure titles. The data obtained were entered into the statistical package for social scientist (SPSS) and mainly analysed using descriptive statistics and

Table 1. Demographic characteristics of bank officials.

Demographics of officials from lending institutions	Categories	$N = 108$	Valid %
Gender	Male	70	64.8
	Female	38	35.2
Age	<30 yrs	23	21.3
	30–45 yrs	52	48.1
	Above 45 yrs	33	30.6
Institution type	UB	57	52.8
	MFI's	51	47.2
Years at current institution	<5 yrs	34	31.5
	5–10 yrs	42	38.9
	Above 10 yrs	32	29.6
Position	Credit officer	54	50
	Loans manager	41	38
	Branch manager	13	12
Years at current position	<5 yrs	39	36.1
	5–10 yrs	46	42.6
	Above 10 yrs	23	21.3

Source: Field survey.

non-parametric tests such as the Mann–Whitney test, Chi Square test. The results and discussion are presented in the next section.

4. Results and discussions

4.1. Respondent characteristics

A summary of the demographic characteristics of the respondents sampled in this study is displayed in Table 1. A total of 108 Bank officials participated in the survey. Majority of these respondents (64.8%) were males; the median age of respondents was 30–45 years (48%). A little more than half of the sample (about 53%) was made up of respondents from Universal Banks (UBs); 27% from rural banks (RBs) and the rest from savings and loans companies (S&Ls). For the purpose of the analysis here, the respondents from RUs and S&Ls were classified as MFIs. The number of years a participant had spent with the current employer was used as a proxy for the level of familiarity with the institution's policies on the subject matter, whilst the number of years the reported position has been held was used as a measure the level of experience. Only 31.5% of these respondents have been with their current institutions for less than 5 years compared to 68.5% who have being at their current institution for at least 5 years.

This could be an indication of a good staff retention rate within the lending institutions; the majority of these participants thus had ample knowledge of the policies and practices of their institution as far as lending to small businesses is concerned. About 50% gave their job designation as credit officers; the other 50% were either loans managers or branch managers. The results also show that apart from the few respondents (36%) who had held their current reported positions for less than 5 years, 64% have being in their position for five or more years; the median number of years in the reported position was 5–10 years. This indicates that the sampled respondents have good amount of experience in dealing with credit issues and were as such well placed to respond to the question posed; the responses given could thus be considered as quiet reliable.

Table 2. Chi square test for association between the type of lender and lenders' perception on the statement that property registration is not necessary (RENNEC) to make landed property suitable for use as collateral.

RENNEC × Institution type cross tabulation		Institution type: Universal bank	Institution type: MFI	Total
RENNEC				
Strongly disagree	Count	15	3	18
	% within RENNEC	83.3	16.7	100
	% within institution type	26.3	5.9	16.7
	% of total	13.9	2.8	16.7
Disagree	Count	23	8	31
	% within RENNEC	74.2	25.8	100
	% within institution type	40.4	15.7	28.7
	% of total	21.3	7.4	28.7
Neither agree nor disagree	Count	7	11	18
	% within RENNEC	38.6	61.1	100
	% within institution type	12.3	21.6	16.7
	% of total	6.5	10.2	16.7
Agree	Count	9	17	26
	% within RENNEC	34.6	65.4	100
	% within institution type	15.8	33.3	24.1
	% of total	8.3	15.7	24.1
Strongly agree	*Count*	3	12	15
	% within RENNEC	20.0	80.0	100
	% within institution type	5.3	23.5	13.9
	% of total	2.8	11.1	13.9
Total	Count	57	51	108
	% within RENNEC	52.8	47.2	100
	% within institution type	100	100	100
	% of total	52.8	47.2	100

Chi-square test	Value	df	Asymp. Sig (2-sided)
Pearson Chi-square	23.748[a]	4	.000
Likelihood ratio	26.152	4	.000
Linear-by-Linear Association	21.930	1	.000
N of valid cases	108		

[a]0 cells (.0%) have expected counts less than 5. Minimum expected count is 7.08

4.2. Secure titles and acceptability of landed property by lenders

In order for the possession of secure property titles to influence credit access, it must be a cardinal factor which lenders highly prioritise in their decision-making. The study sought to determine whether or not secure titles are required to make property eligible for use as collateral. From Table 2, a total of 45.4% of all 108 participants agree with the assertion that registration is necessary to make landed property an acceptable collateral asset; in other word these lenders do regard the possession of formal titles as a necessary requirement when taking landed property. Those who agree that registration is not necessary constitute 38% of the sample, whilst the remaining 17% neither agreed nor disagreed. The Chi square test in Table 2 shows, however, that respondents' attitude to the indispensability of secure registered title when accepting property-based collateral varies between Banks and MFIs. For the MFIs, 56.8% agree that registration is not necessary to make property eligible collateral compared to 21.6% who disagree. On the contrary, only 21.1% of UBs agree that registration is not necessary vis-à-vis

Table 3. Chi square test for association between types of property documents accepted and lender type.

		Institution type		
		Universal bank	MFI	Total
Documentation type × Institution type cross tabulation				
Documentation type				
Only registered documents	Count	42	39	51
	% within RENNEC	82.4	17.6	100
	% within institution type	73.7	17.6	47.2
	% of Total	38.9	8.3	47.2
Both registered & unregistered documents	Count	15	42	57
	% within RENNEC	26.3	73.7	100
	% within institution type	26.3	82.4	52.8
	% of total	13.9	38.9	52.8
Total	Count	57	51	108
	% within RENNEC	52.8	47.2	100
	% within institution type	100	100	100
	% of total	52.8	47.2	100

Chi-square test	Value	df	Asymp. Sig (2-sided)	Exact sig (2-sided)	Exact sig (1-sided)
Pearson Chi-square	33.914[a]	1	.000		
Continuity correction[b]	31.703	1	.000		
Likelihood ratio	36.152	1	.000		
Fisher's exact test				.000	.000
Linear-by-Linear Association	33.600	1	.000		
N of valid cases	108				

[a]0 cells (.0%) have expected counts less than 5. Minimum expected count is 24.08.
[b]Computed only for 2 x 2 table

Table 4. Important attributes of land-based collateral by institution type.

	Universal banks ($N = 57$)				Micro-finance institutions ($N = 51$)			
Property attributes	Least important (%)	Important (%)	Critically impor-tant (%)	Median	Least important (%)	Important (%)	Critically important (%)	Median
Market value	0	21.1	78.9	6	0	31.4	68.6	5
Documentary evidence of ownership	0	24.6	75.4	6	5.9	19.6	74.5	6
Location	0	26.3	73.7	5	15.7	39.2	45.1	4
Registered property titles	43.3	56.1	0	5	64.7	35.3	0	3
Property insurance	12.3	33.3	54.4	5	45.1	33.3	21.6	3
Leasehold/ freehold	52.6	40.4	7.0	2	54.9	37.3	7.8	2

66.7% who disagree. The Chi square test as indicated in Table 2 thus confirms that a significant association exists between the perception on the eligibility of unregistered property as collateral and the type of lender. Thus unlike MFIs, Banks on average do perceive the possession of secure registered titles as a necessary condition that must be met to make property acceptable as collateral.

All the respondents (108) in this study indicated that they require documentary proof of property ownership when taking property as collateral to secure credit. As

Table 5. Mann–Whitney test for differences between UBs and MFIs perception of the level of importance of various property attributes.

	Ranks			
	Institution type	*N*	Mean rank	Sum of ranks
Location	Universal bank	57	61.31	3494.50
	MFI	51	46.89	2391.50
	Total	108		
Market value	Universal bank	57	56.75	3234.50
	MFI	51	51.99	2651.50
	Total	108		
Land rights	Universal bank	57	57.03	3250.50
	MFI	51	51.68	2635.50
	Total	108		
Land insurance	Universal bank	57	67.74	3861.00
	MFI	51	39.71	2025.00
	Total	108		
Property registration	Universal bank	57	64.49	3676.00
	MFI	51	43.33	2210.00
	Total	108		
Documentation	Universal bank	57	55.80	3180.50
	MFI	51	53.05	2705.50
	Total	108		

Test statistic[a]	Location	Market value	Land rights	Property insurance	Property registration	Documentation
Mann–Whitney *U*	1065.500	1325.500	1309.500	699.000	884.000	1379.500
Wilcoxon *W*	2391.500	2651.500	2635.500	2025.000	2210.000–	2705.500
Z	−2.468	−.872	−.911	−3.576	−3.576	−501
Asymp Sig. (2-tailed)	.014	.383	.362	.000	.000	.616

[a]Grouping variable: institution type.

per this finding, it can be said that in Ghana most property owners will be unable to use their properties as collateral in that about 70% of such properties are owned under the customary system where ownership is mostly undocumented (World Bank, 2011). Respondents were asked to indicate which kinds of property documents are acceptable to them. Though all lenders taking property as part of the conditions for granting a funding request require documentary evidence of ownership, the kinds of documentation required however vary but were broadly classified into three groups: registered documents only, unregistered documents only and a combination of registered and unregistered documents.

The results indicate that overall, 53% (57 respondents) accept both registered and unregistered documents as proof of ownership, 47% (51 respondents) accept only registered documents such as title certificates or registered deeds/lease but none of the respondents accept only unregistered documents like allocation papers and unregistered deeds. From Table 3, about 82% of all 51 lenders who accept only registered documents are Banks. About 74% of those who accept both registered and unregistered documents are MFIs. Therefore, the probability that both registered and unregistered property will be accepted by lenders was 0.26 (26%) for Banks and 0.82 (82%) for MFIs. The Chi square test in Table 3 thus revealed a significant association between the lender type and the type of property documents accepted. Compared to MFIs, Universal Banks are more likely to request for registered documents as a condition for lending. Stated differently, MFIs are more likely to accept unregistered property titles as collateral. This is consistent with earlier results (already reported above) that Universal Banks unlike MFIs generally did not consider unregistered property as eligible for use as collateral. Indeed, it is not out of place for UBs to insist on formal titles as part of the conditions for advancing credit in that secure property rights promotes the development of active property markets (Feder & Nishio, 1998); the saleability of such property is thus greatly enhanced during default. Evidence suggests that there is a direct relation between secure tenure and investment in landed property (Feder & Nishio, 1999), the ability of formal titles to enhance tenure security leads to an appreciation of property values (De Soto, 2000; Payne et al., 2009). Brown et al. (2006), for instance, observe that land values could appreciate by about 25% or higher upon registration. Durand-Lasserve and Payne (2006) also estimate that the market value of land appreciates by at least 20–60% upon registration. These together render any property covered by formal title a better and more acceptable form of collateral that can facilitate the credit delivery process for the Universal Banks. MFIs usually will lend small amount over time in order to build long time trust. Furthermore, where there is lending to a group, the solidarity which is generated from such collective body acts as further collateral. These are additional layers of security from the point of view of the MFIs. So despite the fact that they are inclined to accept evidence of property ownership other than registered titles, MFIs have some inherent mechanisms which help to minimise the likelihood of default.

From the perspective of both MFIs and Universal Banks, the result on the eligibility of unregistered property rights (which roughly translates to tenure insecurity, see de Soto, 2000) confirms to some extent arguments by Dower and Potamites (2005) that property can be used as collateral even if it is not formally registered. This appears to contradicts de Soto (2000) argument that unregistered property is 'dead capital' and cannot be used as collateral for credit. Indeed, de Laiglesia (2004) also established that 68% of the private banks in his study required registered property whilst only 6.7% accepted unregistered property. The dead capital thesis may hold true to some extent, particularly from the perspective of the Universal Banks which appear to give much attention to formalised land title in the lending decision-making process. The difference in attitude of Universal Banks and MFIs towards formal property titles can be explained by the inherent differences in their modes of operation. As a result of the low-income levels in Ghana, most households and businesses cannot meet the capacity requirement of the traditional banking institutions; therefore to be able to provide sustainable finance to businesses, banks tend to seek for dependable collateral (Boamah, 2010). As far as landed property is concerned the absence of formal titles weakens the dependability of such collateral. Adequate security is a requirement if financial institutions are to grant loans to businesses and households; indeed a weak regulatory framework also has the ability to undermine the adequacy of the collateral (Boamah, 2011). The issuance of formal titles on property integrates the existing informal ownership of property into the formal economy with strong legal protection over such ownership. This then enhances the dependability and adequacy of such collateral paving the way for businesses and individuals to more easily access funds from the banks. MFIs on the contrary attempt to ease credit access by that segment of society that would find it difficult obtaining funding from the Banks. This is done by using a lending model which mimics the characteristics of informal lending. According to Kotir and Obeng-Odoom (2009), informal credit does not involve stringent lending conditions such as collateral. Hence MFIs have become popular among low-income households and small businesses which are able to obtain funding from such institutions without providing hard collateral.

However, as observed from Table 4, more than a formal title is required if a given landed property is to be accepted by a lender as collateral. Hernando de Soto's claim that registered title almost guarantees access to formal credit is therefore over simplification of the complexities involved in the lending decision processes. The argument concerning the ineligibility of unregistered property therefore should be made within the context of the kind of lending institution under consideration. Indeed, it should be noted that in situations where other forms of collateral are more preferred to property, the issue of whether or not ownership of property is registered has little or no weight (Domeher, 2012). Hence, to exert any influence on credit access through the eligibility of property for collateral purposes, collateral must first be regarded as necessary in lending to small businesses and secondly, property must be the lenders' preferred choice of collateral. If these conditions are met, secure property titles will make property acceptable forms of collateral only within the main stream Universal Banks. Even after these conditions are met, secure registered titles will still not influence eligibility of property for use as collateral within MFIs as per the findings of this study for reasons explained above.

The eligibility of landed property for use as collateral should not be limited to the issue of formal titles alone since there are other attributes that lenders consider before accepting any given property. Hence, there is the need to compare these other attributes to the possession of formal titles in terms of their level of importance. Table 4 shows the ratings lenders assigned to the various attributes of landed property. The level of importance attached to the six attributes of property-based collateral did vary in some instances between the Banks and MFIs. For instance, Table 4 shows that all the attributes except the kind of land rights held (freehold/leasehold) are rated as critically important by the Banks (Based on the median ranks) – an indication that Banks will not accept a landed property if there are significant deficiencies in any of the top five attributes in Table 4. MFIs on the other hand rated market value and availability of documentary proof of property ownership as the only critical attributes. Formal titles, insurance and location were however rated as attributes that may be ignored even though they are important.

The Mann–Whitney test in Table 5 shows no statistical difference between Banks and MFIs in terms of the level of importance attached to the following property attributes: property's market value, nature of the rights held and availability of documentary proof of ownership. However, compared to MFIs, Banks attached a significantly higher level of importance to the following attributes: location, property insurance and registered property titles. The level of importance attached to property titles thus varies depending on the type of lender. The above results are consistent with what one would expect in practice because when lenders take collateral, they do so with the intention that during default the forced sale value will be sufficient to repay the outstanding debt. This explains why lenders typically lend amounts less than the estimated forced sale value of the collateral. Hence, the value of the property in itself may determine how much debt could be granted. Gilbert (2002) thus confirms in his study that whenever the lender has doubts about the value of the property other factors tend not to matter much in influencing their lending decision. This presupposes that lenders would equally be concerned with the ease of foreclosure of the property which is affected by the location of the property. Also when the potential borrower cannot

Table 6. Possession of registered property titles and its effect on loan conditions.

	% of total respondents (108)			
Loan conditions	Disagree	Neutral	Agree	Median
Lower interest rate	55.6	25.9	18.5	2
Lower fees	62.0	21.3	16.7	2
Larger amounts	59.3	23.1	17.6	2
Longer maturity time	59.3	36.1	4.6	2

provide documentary proof of their entitlement to the property, the above arguments will not even be considered. It is thus not surprising that these three attributes were duly rated as critically important (see Table 4). Indeed, location may affect demand for and the value of the property. A property must be located in an area that can attract buyers more quickly to make it more acceptable collateral to lenders.

For instance, Lenders in Colombia are reported to have strict rules about the kinds of buildings as well as their locations that can be considered in advancing loans Gilbert, 2002). Durand-Lasserve and Payne (2006) observe that there is a significant reduction in efficiency gains of taking land-based collateral where the lender for instance, places a value on the location of a land parcel as a slum. Bromley (2005) also notes that a good house in a bad neighbourhood is always burdened by its surroundings and as such less acceptable to lenders.

The results in Table 4 show that whilst the banks consider registered property titles to be a critically important attribute that cannot be ignored in lending, MFIs do not give it an equal weight of relevance. This result for the MFIs is consistent with the observation by Gilbert (2002) that in Bogota, the most serious problem faced by formal lenders is not the absence of formal property titles. In other words, the failure by most applicants to obtain funding is not attributable to the non-possession of formal property titles. It also re-enforces the argument by Brown et al. (2006) that though registered property titles may be a necessary condition for using the property as collateral for a loan, it is by no means a sufficient one.

4.3. Secure property titles and loan terms

To investigate whether or not the possession of formal titles enhances credit access by influencing the loan conditions that borrowers are offered, the lenders were given a scenario involving two identical borrowers who only differ in terms of the kind of property they possess (registered or unregistered) and asked to indicate the extent to which they either agree or disagree that borrowers with registered property titles are offered lower interest rates, lower fees, allowed to borrow larger amounts and longer repayment periods. This was done using a five-point likert scale where 1 is strongly disagree and 5 is strongly agree.

The results shown in Table 6 indicate that about 59% of all respondents in the study disagreed with the statement that registered property owners are offered longer repayment time or larger loan amounts. Also, 62% and about 56% of respondents disagreed that registered property owners are charged lower fees and interest rates, respectively. Only a minority of respondents in each case agreed that using registered property per se as collateral may attract better loan conditions relative to unregistered property owners (see Table 6). The median rank of 2 for each of the loan terms in Table 6 indicates that lenders generally disagree with

Table 7. Mann–Whitney test for difference between banks and MFIs regarding their perceptions on the impact of formal property title on loan terms.

	Ranks		
Institution type	*N*	Mean rank	Sum of ranks
Interest			
Universal bank	57	56.96	3247.00
MFI	51	51.75	2639.00
Total	108		
Fees			
Universal bank	57	57.46	3275.50
MFI	51	51.19	2610.50
Total	108		
Amount			
Universal bank	57	58.51	3335.00
MFI	51	50.02	2551.00
Total	108		
Repayment time			
Universal bank	57	53.68	3060.00
MFI	51	55.41	2826.00
Total	108		

Test statistic[a]	Interest	Fees	Amount	Repayment time
Mann–Whitney *U*	1313.000	1284.500	1225.000	1407.000
Wilcoxon *W*	2639.000	2610.500	2551.000	3060.000
Z	−.899	−1.085	−1.458	−.302
Asymp Sig. (2-tailed)	.369	.278	.145	.763

[a]Grouping variable: institution type.

the assertion that potential borrowers who possess registered property titles are granted better loan terms relative to those without registered property titles.

The Mann–Whitney test in Table 7 indicates that no difference exists between the Banks and MFIs regarding their perceptions on the impact of registration on loan terms. Hence, even though MFIs accept both registered and unregistered property, they do not offer better loan terms to borrowers who possess registered property relative to those possessing unregistered property. This finding thus contradicts the argument of De Laiglesia that property registration through its ability to raise land values and increase its liquidity could increase the amount of credit that is made available to borrowers as well as reduce the interest rate charged. The above finding also contradicts that of Field and Torero (2004) that in Peru, titled loan applicants on condition of receiving a loan, were charged interest rates that were on average 9 percentage points lower than untitled applicants.

Migot-Adholla, Hazell, Blarel, and Place (1991) found that the average maturity of loans to the households surveyed was less than a year and that the possession of registered title did not increase loan maturities for the sampled households. Place and Migot-Adholla (1998) also investigated the impact of registered property titles on loan size, interest rates and maturities and the extract below is what they established from their study in Africa.

> … Concerning loan maturities, the mean number of months for repayment of loan is 19.6 on land-secured loans and 24.8 for others. As for loan amounts, the mean size of land-secured loans is 10,146 Kenya shillings as compared to 8753 shillings for others ($1 = Ksh 22 during the time of the study). Neither result is statistically significant and thus there is no evidence that land titles significantly alter the terms of formal sector loans. (Place & Migot-Adholla, 1998, p. 368)

In the above studies, no evidence was found to support the argument that property registration significantly affects the terms of formal loans such as loan size, interest payment and maturity; Place and Migot-Adholla (1998) suggests that the results be viewed with some caution since they did not stratify the loans according to the type of lender. This paper is thus consistent with that conducted in other parts of Africa by Migot-Adholla et al., and Place and Migot-Adholla. This study also goes an extra step to test for differences between types of lenders regarding the impact of property registration on the loan terms. By establishing that there is no significant difference between Banks and MFIs regarding the impact of registration on loan terms, this study has contributed to resolving some gaps which were left unaddressed by previous studies.

The result on the impact of registration on loan terms is possibly pointing to the fact that lenders decisions on the kind of loan terms to offer are determined by other more important factors such as regulatory requirements, institutional lending policy, competition amongst lenders, the cost of funds, risk, lender borrower relationship and the general macroeconomic environment among others. In the case of MFIs for instance, the decision to offer better loan terms comes with every successful repayment made by the borrower. MFIs adopt a progressive approach to lending as a key for building long-term relationships and trust to ensure continuous flow of funds to clients. Such relationship lending begins with smaller loan amounts which increase with each successive round of repayment success (Morduch, 1999). Clients have the assurance that the successful repayment of each loan received will pave the way for them to receive much larger loan amounts in the future. On the contrary, when they default on a current loan, in the future, they may only obtain lesser amounts or nothing at all.

5. Conclusion and policy implications

Secure tenure has long been portrayed as the panacea to a range of the development challenges (FAO, 2012). As a result, securing land rights continues to gain traction. What has been problematic is the continuous equation of secure tenure to registered land right. This is what Obeng-Odoom and Stilwell (2013) describe as a reductionist trajectory. In their work, Obeng-Odoom and Stiwell argue that the concept of secure tenure is multi-faceted, comprising of the tripartite concepts of legal, social and economic variables. As a result, 'secure tenure needs to be seen as a multidimensional concept and addressed through a correspondingly broad set of strategic policy initiatives' (Obeng-Odoom & Stilwell, 2013, p. 328). By examining the findings of this study within the logic espoused by Obeng-Odoom and Stilwell (2013), it must be noted that the factors which influence lending decisions are complex and varied. These complexities are further compounded when the issues are examined from the continuum of UB and MFIs. This analysis highlights the need to reframe some of the ongoing critical development discourse, particularly the 'dead capital thesis'.

De Soto (2000) argues that the lack of formal property titles in the developing world is the cause of the credit constraint and high poverty levels; even though many of the poor are said to possess valuable landed property that could enhance their access to credit, such properties are said to be defective. As such, these properties are not a secure form of collateral for lenders to accept due to the absence of formally registered property titles over them. Available literature shows the media through which secure property rights can influence credit access to include: making property more secure and acceptable form of collateral and eventually also improving the terms of the credit offered borrowers. It is in this light that insecure property rights is believed to be a major hindrance to economic development in the third world (World Bank, 1975). The findings of this study have brought to the fore evidence that will help define the scope of this argument. Evidence from this study indicates that some lenders regard secure property titles as a requirement to make landed property an acceptable form of collateral. However, further analysis revealed that this conclusion is more applicable to the Universal Banks than the MFIs. Hence, any argument relating secure titles to the acceptability of landed property by lenders must be made within the context of the right kind of financial institution. All lenders do regard secure titles as important but whether or not it will influence their decision to accept a given landed property as collateral varies across lender types. The implication is that any policy geared towards enhancing security of property rights will be greatly appreciated by lenders but the impact on the acceptability of such property and access to credit will depend on which institutions SMEs approach for credit. Empirical evidence from Ghana suggests that most SMEs often approach MFIs for credit facilities (Domeher et al., 2014). Therefore, since MFIs are found to accept both registered and unregistered property as collateral, registered titles per se will have an insignificant impact on SMEs credit access. It is probably in this light that Hammond (2008) observed that formal property titles make a rather insignificant beneficial contribution. If the only purpose of property registration is to make property more acceptable forms of collateral in Ghana, then these results call for a policy rethink. However, if the trend of SMEs demand for credit in Ghana do change towards the Universal Banks then promoting property registration will do a great deal to enhance credit access.

Ghana is currently undertaking land administration reforms through the Land Administration Project. The overarching objective of this initiative is to 'develop a sustainable and well-functioning land administration system that is fair, efficient, cost effective, decentralised, and that enhances land tenure security through …' (World Bank, 2003, p. 3), As part of the strategies to achieve this, land titles covering an estimated 300,000 parcels of urban land and at least 80 allodial land-owning bodies are expected to be issued. The reason for this policy direction is not far-fetched. Among others, it is expected to boost access to credit:

> [The need to] speed the processes for issuing land titles and documenting land rights in urban and rural areas [are critical to ensure] … secure tenure and facilitate access to credit. [These have] the potential to promote greater investment in the economy. (World Bank, 2011, p. 12)

So clearly, the 'dead capital thesis' is at play in the design and implementation of the Ghana Land Administration Project. It is believed that having formalised land titles would be important in resolving land-related contestations. This is because, through the process of titling, property owners are issued with formal titles which are supposed to be prima facie evidence of ownership (Land Title Registration Law, 1986). Thus in times of disputes, the possession of formal titles do facilitate the dispute resolution process through the formal court system.

However, the premise of the dead capital thesis which argues that formal titles make property ownership secure (Adams, Cousins, & Manona, 1999; Deininger & Chamorro, 2002; Kakuru, 2008) has been disputed by other empirical findings. For instance, Abdulai and Domeher (2012) found several instance in Ghana where formal titles issued got quashed in the law courts; the holders of such titles lost their rights to the properties without any compensations. Even where formal titles exist, Kvitashvili (2004) argues that unenforceability of the related rights will expose the owners to a clear case of insecurity. The provision of formal titles through registration does not solve the problem of land disputes especially in the continent of Africa. As noted by Payne et al. (2009) in several areas including India, Mexico, Peru, South Africa, Tanzania, Senegal and Egypt, de facto security already existed before the introduction of land registration programmes; indeed in Afghanistan and India for instance, it is reported that registration actually led to a reduction in tenure security. It is probably in this regard that Atwood (1990) argues that land registration could actually reduce security and lead to more conflicts. Elsewhere in Honduras and the Philippines, the World Bank (2005) further estimates that about 10 and 15% of registered lands, respectively, remain under ownership disputes. The above evidence can dampen public confidence in the formal titling process and affect the extent to which the titles eventually issued may influence the decisions of lenders. The empirical evidence therefore does not support the premise of the dead capital argument linking formal titles to credit access. On the face of the evidence, de Soto's arguments appear flawed. It is hence not surprising when this study found that simply registering title to property, as a means of stimulating access to formal credit may only achieve very marginal results which will not be commensurate the enormous financial and technical costs which are associated with title registration initiatives. This is in line with the observation by Obeng-Odoom (2013) that applying de Soto's ideas through policy would be ineffective in curbing poverty but could possibly fuel cynicism and fosters social discord. In practice however property registration may yield benefits other than just enhancing credit access. Thus such programmes should be promoted with the right motives. Furthermore, lenders across the various financial institutional types regarded secure titles as important, but the mere possession of a secure property title will not guarantee the borrower better loan terms/conditions compared to another borrower without formal title to property. Hence at best the possession of formal tiles to property may only make it more acceptable to lenders, but that in itself is not a guarantee that the potential borrower will be offered credit neither is a guarantee that they will be offered more favourable loan conditions if indeed they do obtain the credit at all. Hence, there are other critical factors responsible for the SME financing gap in the developing countries, these should be first established and once the relative importance of such factors is well established appropriate policy can then be designed towards addressing such critical determinants. Other than that governments will be prescribing the right medications for the wrong ailments.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes on contributors

Daniel Domeher is currently a lecturer in Banking and Finance at the KNUST School of Business. He obtained his PhD in Real Estate Finance from the Liverpool John Moores University, UK. He also holds an MA in Banking and Finance from Sheffield Hallam University, UK and a BA degree in Economics (First Class) from KNUST, Ghana. His research interest includes the following: Real Estate Financing in the Developing World, Property Rights Economics, Financial innovations, Risk Management, SME Financing, Poverty Reduction and all Aspects of Banking and Finance. He has published in journals and conferences of international repute. He can be contacted through, ddomeher.cass@knust.edu.gh, or dommedann@yahoo.com.

Raymond Abdulai is a senior lecturer and head of real estate and planning research in the School of the Built Environment. He holds a PhD, MPhil (Cantab), and a BSc (First Class Honours), all in real estate as well as a PGCertHE. Prior to his appointment at Liverpool John Moores University, he worked at the School of Technology, Wolverhampton University as a postdoctoral research fellow and lecturer in real estate. Before commencing his academic career in the United Kingdom, he lectured at Kwame Nkrumah University of Science and Technology in Ghana where he also practised as a chartered general practice surveyor. Raymond's research interests span various facets of real estate including: real estate economics, management, finance, investment, valuation and development; land dispute resolution, especially in the developing world; emerging real estate markets; and landed property rights, particularly, traditional land rights in the developing world. He has published extensively in reputable journals, participated at conferences, edited books and research monographs and has three books to his credit. He is currently the editor-in-chief of *Journal of International Real Estate and Construction Studies*. He can be contacted via the following email address: r.talinbe@ljmu.ac.uk.

Eric Yeboah holds a PhD (Land Management) from the University of Liverpool, United Kingdom and a Bachelor's Degree in Land Economy from the Kwame Nkrumah University of Science and Technology, Kumasi, Ghana, where he is presently working as a lecturer and coordinator of postgraduate Studies. He is a researcher with strong interest in Land Governance, particularly the interface and complex linkages between customary law, large-scale land-based investments, gender equality, urbanisation and informal settlements. He has published in several reputed Journals and has also presented papers at many international conferences. Eric regularly consults for several multi-national organisations such as the International Fund for Agricultural Development (IFAD), USAID, the World Bank and the Bill and Melinda Gate Foundation among others. He serves as a reviewer to a host of journals and he is currently working as the guest editor for the journal, *African Review of Economics and Finance*.

References

Abdulai, R., & Domeher, D. (2012). *Why real estate ownership security cannot be guaranteed via land registration in the developing world*. New York, NY: Nova Science.

Abor, J., & Quartey, P. (2010). Issues in SME development in Ghana and South Africa. *International Research Journal of Finance and Economics, 39*, 218–228.

Adams, M., Cousins, B., & Manona, S. (1999). *Land tenure and economic development in rural South Africa: Constraints and opportunities* (Working Paper 125). London: Overseas Development Institute.

Agbosu, L. K. (2000). *Land law in Ghana contradiction between Anglo-American and customary conceptions of tenure and practices* (Working Paper 33 submitted to the Land Tenure Center). Madison, WI: University of Wisconsin-Madison.

Aryeetey, E. (2008), March 4–5. *From Informal Finance to Formal Finance in Sub-Saharan Africa: Lessons from Linkage Efforts*, African Finance for the 21st Century High-Level Seminar organized by the IMF Institute in collaboration with the Joint Africa Institute, Tunis,Tunisia.

Atwood, D. A. (1990). Land registration in Africa: The impact on agricultural production. *World Development, 18*, 659–671.

Ayyagari, M., Beck, T., & Demirgüc-Kunt, A. (2003). *Small and medium enterprises across the Globe* (Working Paper No. 3127). Washington, DC: World Bank Policy Research.

Bahar, H. (2001). *Financing for micro enterprises, small, medium-sized and cottage industries, bangladesh perspective*. A paper presented at the ESCAP-ADB Joint Workshop on Mobilizing Domestic Finance for Development: Reassessment of Bank Finance and Debt Markets in Asia and the Pacific held in Bangkok, 22–23 November.

Bell, K. C. (2006). *World Bank support for land administration and management: Responding to the challenges of the millennium development goals*. Paper Presented at the 23rd FIG Conference, Munich.

Berger, M. (1989). Giving women credit: The strength and limitations of credit as a tool for alleviating poverty. *World development, 17*, 1017–1032.

Boamah, N. A. (2010). Mortgage market in Ghana: The past and the future. *Housing Finance International, The Quarterly Journal of the International Union for Housing Finance*, *24*, 10–14.

Boamah, N. A. (2011). The regulatory environment and housing finance market in Ghana. *Property Management, 29*, 406–422.

BOG (2012). Register of Financial Institutions. Retrieved January 15, 2012, from htpp://www.bog.gov.gh/index.php?option=com_content&view=article&id=110&itemid-123

Boucher, S., Guirkinger, C., & Trivelli, C. (2005, July). Direct ellicitation of credit constraint: Conceptual and practical issues with an empirical application to peruvian agriculture. Selected paper presented at the American Agricultural Economic Association Annual Meeting Providence, Rhode Island.

Brasselle, A., Gaspart, F., & Platteau, J. (2001). *Land tenure security and investment incentives: Puzzling evidence from Burkina Faso*. Namur: Centre De Recherche En Economie Du Développement (Cred), Faculty of Economics, University of Namur.

Bromley, D. (2005). *The empty promises of formal titles: Creating Potemkin villages in the tropics*. Madison: University of Wisconsin.

Bromley, D. W. (2008). Formalising property relations in the developing world: The wrong prescription for the wrong malady. *Land Use Policy, 26*, 20–27.

Brown, E., Dimitrova, D., Ehrenberg, D., Heyes, J., Kusek, P., Marchesi, G., … Ernesto, V. (2006). *Secure tenure in Latin America and the Caribbean: Regularisation of informal urban settlements in Peru*. Mexico: Woodrow Wilson School of Public and International Affairs, Princeton University.

Carter, M., & Olinto, P. (2003). Getting institutions ‘right’ for whom? Credit constraints and the impact of property rights on the quantity and composition of investment. *American Journal of Agricultural Economics, 85*, 173–186.

Claessens, S. (2006). Access to financial services: A review of the issues and public policy issues. *World Bank Research Observer, 21*, 207–240.

Creswell, J. W. (2009). *Research design: Qualitative, quantitative and mixed methods approaches*. Lincoln: Sage Publications.

Cull, R., Demirguc-Kunt, A., & Morduch, J. (2006). *Financial performance and outreach: a global analysis of leading microbanks* (Policy Research Working Paper Series). Washington, DC: The World Bank.

Deininger, K. (2003). *Land policies for growth and poverty reduction*. Oxford: World Bank and Oxford University press.

Deininger, K. & Chamorro, J. (2002). *Investment and income effects of land regularisation the case of Nicaragua* (Rural Development Policy Research Working Paper, 2752). Washingthon, DC: The World Bank, World Bank Development Research Group.

De Soto, H. (2000). *The mystery of capital: Why capitalism triumphs in the west and fails everywhere else*. London: Bantam Press.

Domeher, D. (2012). *Secure property rights and access to small enterprises’ credit: A comparative study of Ghana and England* (Unpublished PhD thesis). Liverpool John Moores University, Liverpool.

Domeher, D., Frimpong, J. M., & Mireku, K. (2014). Nature of the SME financing gap: Some evidence from Ghana. *International Journal of Economics and Finance, 6*, 165–175.

Dower, P., & Potamites, E. (2005). *Signalling credit-worthiness: Land titles, banking practices and access to formal credit in Indonesia*. New York, NY: New York University, Department of Economics.

Durand-Lasserve, A., & Payne, G. (2006). *Evaluating impacts of urban land titling: Results and implications: Preliminary findings*. London: Draft Report for Geoffrey Payne and Associates.

Ehrmann, M., Leonardo, G., Jorge, M., Sevestre, P., & Worms, A. (2003). Financial systems and the role of banks in monetary policy transmission in the euro area. In I. Angeloni, A. K. Kashyap, & B. Mojon (Eds.), *Monetary policy transmission in the euro area* (pp. 235–265). Cambridge: Cambridge University Press.

Feder, G. & Nishio, A. (1998). The benefits of land registration and titling: Economic and social perspectives. *Land Use Policy, 15*, 25–43.

Feder, G., Onchan, T., & Chalamwong, Y. (1988). Land policies and farm performance in Thailand's forest reserve areas. *Economic Development and Cultural Change, 36*, 483–501.

Food and Agriculture Organization of the United Nations. (2012, March). *Voluntary guidelines on the responsible governance of tenure of land, fisheries and forests in the context of national food security*. Rome: Author.
Field, E., & Torero, M. (2004). *Do property titles increase credit access among the urban poor? Evidence from a nationwide titling program*. Cambridge, MA: Harvard University.
Fjose, S., Grünfeld, L. A., & Green, C. (2010). *SMEs and growth in Sub-Saharan Africa – Identifying SME roles and obstacles to SME growth* [MENOM Publication no. 14/2010]. Retrieved 15/10/15, from http://www.norfund.no/getfile.php/Documents/Homepage/Reports%20and%20presentations/Studies%20for%20Norfund/SME%20and%20growth%20MENON%20%5BFINAL%5D.pdf
Fleisig, H., Safavian, M., & de la Pea, N. (2006). *Reforming collateral laws to expand access to finance*. Washington, DC: The World Bank.
Food and Agriculture Organisation. (2005). *Access to rural land and land administration after violent conflicts, FAO land tenure studies, No. 8*. Rome: Author.
Galeana, F. (2004). Who wants credit? Explaining the demand for land titling in Mexico. *Development Economics: Stanford Undergraduate Research Journal*, *3*, 16–21.
Ghana Statistical Services. (2012). *2010 population & housing census summary report of final results*. Accra: Ghana Statistical Services/Sakoa Press.
Gilbert, A. (2002). On the mystery of capital and the myths of Hernando de Soto: What difference does legal title make? *International Development Planning Review, 24*, 1–19.
Hammond, F. N. (2008). Marginal benefits of land policies in Ghana. *Journal of Property Research, 25*, 343–362.
Harrigan, J. (2001). *From dictatorship to democracy: Economic policy in Malawi: 1964–2000*. Aldershot: Ashgate.
IMF. (2015). *Regional economic outlook. Sub-Saharan Africa*. Washington, DC: International Monetary Fund. Retrieved 15/10/15, from http://www.imf.org/external/pubs/ft/reo/2015/afr/eng/pdf/sreo0415.pdf
International Fund for Agricultural Development. (2008). *Improving access to land and tenure security policy, enabling poor rural people to overcome poverty*. Rome: Author.
Japan International Cooperation Agency. (2008). *SME toolbox: Total know-how for growing a small business in Ghana*. Accra: Author.
Kakuru, K. (2008). *The supply-demand factors interface and credit flow to small and micro enterprises in uganda* (PhD thesis), University of Sterling, Stirling.
Kotir, J. H., & Obeng-Odoom, F. (2009). Microfinance and rural household development a Ghanaian perspective. *Journal of Developing Societies, 25*, 85–105.
Kvitashvili, E. (2004). *Land and conflict: A toolkit for intervention*. Washington, DC: USAID.
Land Title Registration Law. (1986). *PNDCL152*. Accra: Assembly Press.
Llanto, G. (2007). Overcoming obstacles to agricultural microfinance: Looking at broader issues. *Asian Journal of Agriculture and Development, 4*, 23–40.
Migot-Adholla, S., Hazell, P., Blarel, B., & Place, F. (1991). Indigenous land rights systems in Sub-Saharan Africa: A constraint on productivity? *The World Bank Economic Review, 5*, 155–175.
Morduch, J. (1999). The microfinance promise. *Journal of Economic Literature, 37*, 1569–1614.
North, D. & Thomas, R. (1973). *The rise of the western world*. Cambridge: Cambridge University Press.
Obeng-Odoom, F. (2013). The mystery of capital or the mystification of capital? *Review of Social Economy, 71*, 427–442.
Obeng-Odoom, F., & Stilwell, F. (2013). Security of tenure in international development discourse. *International Development Planning Review, 35*, 315–333.
Payne, G., Durand-Lasserve, A., & Rakodi, C. (2009). The limits of land titling and home ownership. *International Institute for Development and Environment (IIED), 21*, 443–462.
Petracco, C., & Pender, J. (2009, August). *Evaluating the impact of land tenure and titling on access to credit in Uganda*. Paper prepared for presentation at the International Association of Agricultural Economists Conference, Beijing.
Place, F., & Migot-Adholla, S. (1998). The economic effects of land registration on smallholder farms in Kenya: Evidence from Nyeri and Kakamega districts. *Land Economics, 74*, 360–373.

Pricewaterhouse Coopers. (2013). *Ghana banking survey, harnessing the SME potential*. Ghana: Pricewaterhouse Coopers.
Rosenberg, N. & Birdzell, L. E. (1986). *How best the west grew rich: The economic transformation of the industrial world*. London: Tauris and Co., Ltd.
Saunders, M., Lewis, P., & Thornhill, A. (2009). *Research methods for business students*. Harlow: Pearson Education.
Sen, A. K. (1999). *Development as freedom*. New York, NY: Anchor Books.
Sonne, L. (2010). *Financing pro-poor enterpreneur base innovation: A review of existing literature* (Working Paper Series no. 2010-038). Shibuya-ku: United Nation University, UN-MERIT.
Stiglitz, J. E. & Weiss, A. (1981). Credit rationing in markets with imperfect information. *The American Economic Review, 71*, 393–410.
UN-ECE Working Party on Land Administration. (2005). *Social and economic benefits of good land administration*. London: HM Land Registry.
UN-HABITAT. (2015). *Property theory, metaphors and the continuum of land rights*. Nairobi: Author.
World Bank. (1975). *Land reform policy paper*. Washington, DC: Author.
World Bank. (2003). *Project appraisal document on the Ghana land administration project* (Report No. 25913). Washington, DC: Author.
World Bank. (2005). *Doing business in 2005: Removing obstacles to growth*. Oxford: Oxford University Press.
World Bank. (2006). *Word development report – Equity and development*. Washington, DC: Author.
World Bank. (2011). *Ghana land administration project – Implementation completion report* (Report No. ICR00002083). Washington, DC: Author.

Appendix 1.

`LIVERPOOL JOHN MOORES UNIVERSITY

SCHOOL OF THE BUILT ENVIRONMENT
HENRY COTTON BUILDING, WEBSTER STREET, L3 2ET,
LIVERPOOL, UNITED KINGDOM

QUESTIONNAIRE FOR BANK OFFICIALS

Please tick this box to indicate that you have read the participant information sheet attached and that you are happy to complete this questionnaire ☐

SECTION A (About Respondent)

1. Type of institution
   Universal Bank ☐ Microfinance ☐

2. Age of respondent
   Below 30yrs ☐ 30-45yrs ☐ above 45yrs ☐

3. Gender
   Male ☐ Female ☐

4. Current position
   Credit officer ☐ branch manager ☐ loans manager ☐

5. How many years of experience do you have working in your current role
   Below 5yrs ☐ 5-10yrs ☐ above 10yrs ☐

6. How many years of experience do you have working in your current institution
   Below 5yrs ☐ 5-10yrs ☐ above 10yrs ☐

SECTION C – Eligibility of landed Property for Collateral Purposes (*the following questions relate to a situation where landed property is to be used by SMEs as collateral for an investment loan).*

7. Do you always require documentary proof of land/building ownership?
   Yes ☐ No ☐

8. Where documentary proof of ownership is required for collateral purposes, which documents are acceptable to you? (Tick all that apply).
   Unregistered title deed/indenture ☐
   Registered title deed/indenture ☐
   Land title certificate ☐
   Land allocation note ☐
   All of the above ☐
   Others (please specify)..

9. Land/building can be used as collateral even if it is not formally registered with the Land Registry
   Strongly disagree ☐ disagree ☐ Neutral ☐ Agree ☐ strongly agree ☐

10. The following are some factors that lenders may consider when taking land-based collateral. Please rank them in order of importance from **1 – 6** (**where ranks above 5 mean the attribute is <u>critically important & cannot be ignored</u>, from 3 – 4 mean factor is <u>important but may be ignored</u> and below 3 means the attribute is <u>not important & should be ignored</u>).** Please tick (√) the appropriate box to indicate how you rank each factor.

Important attributes of landed property that lenders look out for and their relative levels of importance	**Ranks**					
	1	2	3	4	5	6
Location of landed property						
Market value of landed property						
leasehold freehold (kind of rights held by borrower)						
Landed Property Insurance						
Formal Titles on the landed property						
Other documentary proof of landed property ownership						

11. Please read the scenario described below and indicate how much you agree/disagree with the statements in the table below.

    Given two loan SME loan applicants (say A & B) who exhibit the same characteristics in terms of credit worthiness except that one possesses a landed property covered by formal title whilst the other's property is not covered by formal title but has other documentary evidence of ownership. Please indicate in the table below whether you will treat the two applicants differently based on the statements below.

Formal property titles and loan terms	Responses				
	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
The applicant who is able to provide formal property title pays a lower interest rate on loans than the one without formal title					
The applicant who is able to provide a formal property title pays lower fees/commissions than the one without formal title					
The applicant who is able to provide formal property title is allowed to borrow larger amounts than the one without formal title					
The applicant who is able to provide formal property title is allowed a longer repayment time/maturity than the one without formal title					

Thank you