INNOVATIONS FOR SUCCESSFUL SOCIETIES

# LAND RIGHTS FOR THE UNTITLED POOR: TESTING A BUSINESS MODEL, 2012–2021

## SYNOPSIS

For the estimated 70% of the world population that lives on property without a formal land title, life can be precarious. The absence of ownership documentation raises families' vulnerability to forced eviction and conflict; it precludes the use of the property to access financial services and other economic benefits; and it diminishes the value of property by restricting its transfer to an informal, opaque market. And yet, in many parts of the world, the process of obtaining a land title is not only expensive but also complicated and sometimes nearly impossible. In 2012, Habitat for Humanity International, a housing nonprofit based in Atlanta, tried to address that challenge. The organization launched a $100-million impact investment fund called MicroBuild that enabled partner financial institutions to offer housing loans to low-income borrowers worldwide. As part of its mission, the fund also sought to develop a viable business model for services that would improve borrowers' land tenure security. By early 2021, an experiment in Indonesia showed promise and appeared to have overcome some of the problems that had impeded success in Africa and Latin America.

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## INTRODUCTION

Salmah, a soup vendor on the island of Java in Indonesia, reported feeling unsafe and insecure in her small home when in 2021 a survey researcher asked her about her sense of well-being. Her reply was that the roof was badly damaged, allowing rainwater and insects to enter, which she said prevented her from sleeping soundly at night. On top of that, she lacked a formal land title for her home, meaning that she was vulnerable to forced eviction or rival ownership claims.

Salmah's situation was not unique. In Indonesia an estimated 60 million parcels remained untitled in 2016.[1] The government was responsible for providing formal land titles, but because of various factors such as limited administrative capacity, high cost, and in some cases, corruption, the government provided only a few thousand land titles annually, barely denting the total need. As in many countries, lack of titling was a massive public-sector failure; in 2019, the World Bank estimated that worldwide as many as 4 billion people lived on properties without formal land title.[2]

Salmah, who like many Indonesians used only one name, was exactly the kind of person Patrick Kelley, director of housing finance and market development at Habitat for Humanity International, had in mind when he began thinking about how to help provide low-income

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people with greater land tenure security. In 2012, Kelley was preparing to launch the MicroBuild Fund, a $100-million impact investment fund the Atlanta-based nonprofit was sponsoring that would partner with certain financial institutions to offer housing improvement loans to poor residents. Part of the fund's objective was to urge those institutions to help their borrowers obtain formal titles.

Despite the perceived need for property formalization, few for-profit or nonprofit organizations helped households assemble the evidence and surveys they needed to secure titles. In a 2009 project funded by the United States Agency for International Development, however, Habitat had worked with a financial institution in Ghana to develop a fledgling business model whereby the private sector would fill that gap. Kelley and his team at Habitat aimed to grow and refine that model, which enabled financial institutions to offer small loans to help poor, informally employed people obtain tenure documentation for the properties where they lived and often did business.

It was a novel idea. But for it to be globally viable, Habitat had to persuade institutions to adopt it, and then demonstrate that it worked to deliver greater security for people like Salmah.

## THE CHALLENGE

A 2014 McKinsey Global Institute report estimated that by 2025, 1.6 billion people worldwide would lack adequate housing.[3] And according to the UN Committee on Economic, Social and Cultural Rights, much housing was inadequate because the residents lacked land tenure security—that is, legally recognized ownership documentation.[4] According to the World Bank, as of 2019 more than 70% of the world's population lived on property without formal rights or documentation for their land.[5] The problem was most acute in the poorest countries. For instance, as much as 90% of rural land in Africa lacked formal documentation, and only 4% of African countries had mapped and titled the private land in their capital cities.[6]

Lack of formal land rights exposed homeowners and tenants to various risks such as eviction, harassment, conflict, and rival ownership claims. The total number was difficult to obtain, but in 2011 the UN estimated that at least 15 million suffered from forced eviction annually.[7] And the specter of it affected many more: A 2018–19 survey conducted in 140 countries by Prindex, a nonprofit devoted to global land and property rights, found that nearly 1 billion people considered it "likely" or "very likely" that they would be evicted from their land or property within five years.[8]

Lack of land documentation precluded landowners from using their property for economic gain—a major missed development opportunity. Research showed that secure tenure corresponded with higher property values and meant a household was more likely to generate income from its property, such as by renting rooms or leasing plots of farmland.[9] Lack of documentation prevented homeowners from using their land or their home as collateral to obtain loans, grants, or subsidies, and it deprived governments of property tax revenue.

Despite the protections and benefits a land title afforded, obtaining one was difficult. Land titling was the purview of governments, and the process was often prohibitively expensive, procedurally complex, time-consuming, opaque, and unreliable. The government agencies responsible typically suffered from inadequate funding, staffing, and technical capability. The political will to address these problems was usually absent—especially when leaders and the socially powerful benefited from the dysfunction. "It's a massive public-sector failure," said Tim Rann, a managing partner at nonprofit Mercy Corps's impact investment Ventures Fund.

Landowners had few options to help them navigate and finance the formal titling process. Cottage industries of brokers and lawyers offering fee-based services to assist with the process were overrun with fraud and incompetence. "It's amazing and disheartening to see the number of people who have been taken advantage of by intermediaries who promise to process land claims but then fail to deliver," said Matt Alexander, cofounder and CEO of Suyo, a property formalization services provider in Colombia. As a result, many landowners were mistrustful of individuals and organizations offering tenure services.

Few international foundations, nonprofits, and investors addressed the issue. Because land titling was a government function, many organizations viewed it as a problem that only large, top-down interventions could tackle, such as funding to improve the capacity of land registration bureaucracies. But land titling also tended to be overlooked within the international development community.

"Lack of property rights is one of the most underestimated issues in economic development," said Stephanie Cohn Rupp, an impact investor who in 2012 managed investments at the Omidyar Network, an impact investing organization. "So many financial products and services—including education, public health, etcetera—depend on property rights, but it's not a sexy issue. It's administrative, it's legal, it's political, so it tends to be underappreciated."

## FRAMING A RESPONSE

In 2010, Kelley began approaching investors with a novel proposal. Habitat for Humanity International was sponsoring a $100-million fund that would provide capital to so-called microfinance institutions so that these businesses and nonprofits could make housing loans across the developing world (text box 1).

Habitat's MicroBuild Fund would be the first housing-specific fund in the sector of impact investing, a type of investing that sought not only to generate financial return but also to generate measurable social or environmental benefits.

The MicroBuild Fund was an ambitious undertaking for Habitat, a Christian organization founded in 1976 that mobilized volunteer labor to build affordable homes and offered no-interest mortgages to low-income buyers. Stoked by the high-profile involvement of US President Jimmy Carter, who turned to philanthropic activity when he stepped down from public office in 1981, Habitat grew into a global network comprising branch offices and national organizations that were independently run but that operated Habitat programs and used Habitat's name under license agreements. By 2010, Habitat was the world's largest not-for-profit home builder, operating in all 50 US states and nearly 70 countries.

Habitat's model was not without limitations. Expansion into additional countries was slowing. And internationally, many people in need of shelter were still unable to afford a home—even at a price that covered only the cost of materials and with a no-interest loan.

Habitat's board of directors adopted a strategy that would expand the organization's mission to increase access to shelter worldwide. As one approach toward achieving that strategy, the board instructed the management team to find new market approaches that could increase the stock of affordable housing. Expanding housing finance was one such approach.

A certified public accountant with experience in both banking and international development, Kelley was well suited to lead this work. He had helped found and lead microfinance institutions in Rwanda, Burundi, and the Democratic Republic of Congo before joining Habitat in 2006.

During the next few years, Kelley conceptualized the MicroBuild Fund. Rather than provide mortgages, the fund would finance loans for incremental housing improvements such as an additional room, an improved plumbing system, or a new roof. The loans were smaller in size—and thus more affordable—than mortgages, and they reflected the fact that many low-income people did not purchase entire homes but, rather, improved their existing homes incrementally.

Kelley's plan envisioned microfinance institutions as the main providers of those housing improvement loans. The institutions were designed to develop and offer loans to low-income people who usually had no formal employment, which was the demographic Habitat was trying to reach. And Habitat would provide technical assistance for both the microfinance institutions—to design, market, and administer housing loan products—and the end borrowers to help them plan and carry out home improvements.

Kelley said he envisioned MicroBuild as a demonstration fund with a distinctive theory of change. If, with the $100-million investment, Habitat could prove that housing microfinance could produce both capital returns and social benefits, it might trigger an exponential expansion of the sector because copycat funds and other microfinance institutions would seek to mimic MicroBuild's success. "Our big idea on housing microfinance was that barely anybody does it," said Kelley. "Less than 2% of the $200 billion in microfinance is for housing. So our goal was to cause an increase in investment across the sector in order to push that level to 10%. It would mean that $16 billion of investment would affect 4 to 5 million families."

Kelley's next step was to raise money for the fund. He turned to Bruce Cameron, deputy director of housing programs at Overseas Private Investment Corporation (OPIC), an independent US government agency that financed private development projects in low- and middle-income countries. (In 2019, OPIC merged with the Development Credit Authority in USAID to form a new agency: the U.S. International Development Finance Corporation.) Together Kelley and Cameron came up with an arrangement under which OPIC would provide $90 million in debt funding as long as Habitat could secure $10 million in equity from private partners. (The 90:10 debt-to-equity ratio was higher than the 80:20 typical for an investment fund; and as a condition of accepting such leverage, OPIC required not only that the equity partners take losses first but also that Habitat provide $10 million in standby letters of credit to further cushion the agency in the event of mass defaults.)

Habitat's board agreed to provide $5.1 million in equity, leaving nearly another $5 million for Kelley to raise. Because it was a nonprofit with no experience in sponsoring a for-profit investment fund, especially one as large as $100 million, Habitat hired Triple Jump—a Dutch fund manager with extensive experience in microfinance—to run the fund. Triple Jump also agreed to provide $500,000 in equity.

Kelley then approached the Omidyar Network, an impact investment organization established by Pierre Omidyar, founder of e-commerce giant eBay. Cohn Rupp, Omidyar's investment manager at the time, initially declined to participate in MicroBuild, but he found the idea intriguing. Although housing was not an interest area for Omidyar, the organization shared with Habitat a commitment to land tenure and property rights.

The relevance of the proposal to Omidyar's interests gradually brought the organizations together. Habitat's headquarters and several national offices had advocacy and other programs that focused on improving land tenure security. Kelley not only grasped the importance of formal documentation for adequate housing but also understood the link between land tenure and housing microfinance. A household would take out a loan and improve its property only if the people living in it were confident they could remain permanently. "I do think that as people feel more secure in their property, they're also more likely to build on it," said Kelley. "And as they build on it, they have a stronger claim to the property. So building and tenure security are mutually reinforcing." In addition, it seemed logical that a borrower's tenure security would help a microfinance institution determine whether that borrower would be at risk of eviction or a land dispute that would diminish the borrower's ability to pay back a loan.

Cohn Rupp and Kelley eventually reached an agreement under which Omidyar would provide a $2-million equity stake in MicroBuild. In exchange, MicroBuild's mission would broaden in scope to help homeowners obtain land titles or other forms of tenure documentation in addition to financing to improve their dwellings. "We

### Text Box 1: Housing Microfinance

*Microfinance* refers to banking services—especially lending—provided for low-income and unemployed people who would otherwise lack access to financial services. Though the practice of providing small loans for entrepreneurs and farmers as a means of poverty alleviation had existed in various forms for centuries, modern microfinance institutions emerged in the mid-1970s, led by Bangladeshi economist Mohammad Yunus, who established the Grameen Bank to provide microenterprise loans for poor female entrepreneurs.

By 2009, more than a thousand microfinance institutions existed, serving tens of millions of borrowers worldwide.[1] Most of them followed the model Yunus had pioneered, whereby institutions provided small, short-term loans—for the purchase of enterprise capital such as a sewing machine or a motorbike—for groups of borrowers. In the absence of collateral and credit history, the joint liability of the group guaranteed the repayment of loans in the event that individual members defaulted.

Increasingly, however, microfinance institutions began offering individual loans.[2] In the absence of joint liability, individual loans were guaranteed in various ways, including by collateralized assets, guarantors, cosigners, and the work of loan officers who developed risk assessments of borrowers. Some of the products were nonmortgage housing improvement loans, yet Habitat for Humanity International estimated that only 2% of the approximately $200 billion in microfinance loans was explicitly for housing. Studies also showed that borrowers spent 20% of all microfinance loans on housing—an indication that even though few dedicated housing microfinance loans were available, demand for them was high.[3]

[1] "The Microbanking Bulletin." Microfinance Information Exchange, December 2009; http://microrate.com/media/downloads/2012/04/microbankingbulletin_spring09.pdf

[2] Maria Lehner. *Group Lending versus Individual Lending in Microfinance*. Discussion Paper No. 299, Governance and the Efficiency of Economic Systems, August 2009; https://epub.ub.uni-muenchen.de/13255/1/299.pdf.

[3] *Building the Business Case for Housing Microfinance*. Habitat for Humanity Terwilliger Center for Innovation in Shelter, March 2018; https://www.habitat.org/sites/default/files/documents/The-Business-Case-for-Housing-Microfinance-SSA.pdf.

thought it was a win-win. If we could get microfinance institutions to finance the process of formal land titling, it would mean more security for the borrower and more security for the institution," said Cohn Rupp.

The MicroBuild Fund now had an additional goal: to develop and prove a new business model that would provide land tenure security services for those who needed them most. Governments around the world were failing to deliver land documentation. And so far, neither the private nor the nonprofit sector had been able to step in and fill the gap. "We were eager to test the waters for having some commercially viable way of formalizing land tenure," said Cohn Rupp.

Omidyar and Habitat said microfinance institutions could be the key to that commercialization. It would be up to Habitat to demonstrate that it was possible.

## GETTING DOWN TO WORK

In 2012, shortly before the MicroBuild Fund launched—with its first disbursement to a microfinance institution in Tajikistan—Kelley and his team began honing a strategy to implement the land tenure component of the fund. The operational lead on the team was Jyoti Patel, an investment management professional who had joined Habitat the same year after developing the MicroBuild business plan as a consultant. For on-the-ground implementation, Kelley and Patel relied on Habitat staff at four regional offices: one in Costa Rica, covering Latin America; one in Manila, covering Asia Pacific; one in Nairobi, for Africa and the Middle East; and one in Bratislava, Slovakia, for eastern Europe and Central Asia.

Unlike the core goal of the MicroBuild Fund, which provided microfinance institutions with the funding and technical assistance needed to offer housing loans, it was not immediately clear how Habitat would promote tenure security.

To clarify the team's objectives and approaches, Kelley organized Habitat's strategy around three propositions: three theories of change with work plans following from each that would test or advance that theory. The first was the missed-market-opportunity theory, which held that because microfinance institutions tended to equate housing microfinance with mortgages, they had missed out on the opportunity to offer nonmortgage housing-loan products to borrowers. If the institutions had a better understanding of the various forms of tenure documentation (even without a formal land title, a borrower often could obtain other documents that demonstrated a degree of tenure security), then the lenders would be better able to assess the risk of a borrower's being evicted and thus defaulting on a loan.

The second proposition was the home-improvement-moment theory, which posited that borrowers were most willing and able to pay for tenure security services at the time that they applied for housing improvement loans.

The third proposition was that in some settings, investment in home improvements would strengthen a resident's case for ownership. Kelley called this the *adverse-possession theory*, after the legal principle—known in some places as *squatter's rights*—that continuous occupation or possession of a property would confer legal ownership of that property under certain circumstances. The proposition held that if occupants took out loans to improve their houses, they would feel more confident in their claim to adverse possession and thus their ability to obtain formal land documentation.

That last theory could be tested only with survey-based impact evaluations that measured homeowner perceptions about whether taking out a housing loan and improving their home increased their sense of ownership security.

But to assess the other two propositions, Habitat staff under Kelley and Patel's leadership sought to create a pilot and then watch what happened. That meant creating a new business model that would bring together microfinance institutions and land tenure service providers to dramatically expand the market for tenure services for low-income people.

*Educating microfinance institutions on land tenure security*

Providing tenure services required various skills, capabilities, and knowledge that employees of a microfinance institution were unlikely to possess. It involved, among other things, understanding the national land registration administration system and process, interviewing neighbors and local leaders, and even mapping the boundaries and dimensions of a house and its land parcel. All of those skills lay outside a microfinance institution's core competency of developing and issuing financial loan products.

As the Habitat team began engaging the microfinance institutions under consideration for MicroBuild funding, the members found that the directors were generally reluctant to deviate from established business models and operating procedures. Fundamentally, the institutions were banks, and banks avoided taking chances that would jeopardize returns. "In general, the risk appetite of a microfinance institution is low," said Jitendra Balani, Habitat's associate director of capital markets and financial inclusion, who was in charge of delivering technical assistance to microfinance institutions in the Asia Pacific region. "So, as an adviser, you have to come up with solutions that don't interfere with their core operating model."

What that first meant was that Habitat staff would have to educate the institutions about housing microfinance and land tenure. In most cases, when the institutions heard about the possibility of offering housing loan products, they tended to think in terms of the lending industry's standard approach: home mortgages. And because mortgages required collateral to secure the full value of the loan, applicants had to have formal titles to their properties.

Habitat had to explain to those institutions that MicroBuild was funding not mortgages but housing improvement loans—products that could be secured by means other than formal land titles. "We wanted to grow the home lending market by making these institutions cognizant and better informed about the variations in land rights," said Kelley. "That meant loan officers could know that even though a potential borrower didn't have a land title, there were other ways for a borrower to gain confidence about not being evicted from the land and thus unable to pay back the loan."

Between a formal property title and no documentation whatsoever was a spectrum of documents that conferred some degree of tenure security. The documents included formal or informal sales agreements for the home or property; so-called soft titles, or statements of possession rights granted by local or municipal authorities; written testimonies from neighbors or from a communal authority such as a village head; inheritance documents; tax payment receipts; and utility bills. All such documents could serve as proof—of varying strengths—that a tenant owned a property.

Education about the various types of documents was part of the technical assistance Habitat staff and hired consultants provided for product developers and loan officers at microfinance institutions. The assistance was encapsulated in a housing microfinance tool kit, a 230-page workbook that guided institutions through the process of developing, piloting, and launching a housing loan product.[10] Sections of the workbook covered tenure security by providing details about the various forms of documentation loan officers could gather when evaluating a potential borrower for a housing loan.

The workbook also contained a tool that loan officers could use to assess a client's tenure security if the client had no documentation. The Secure Tenure Assessment Tool (STAT) card had five tenure-related indicators to which the loan officer would assign scores (figure 1). The result would serve as a standardized measure of a potential borrower's tenure security and also as a form of land documentation for the borrower.

The STAT card was developed by Habitat for Humanity's national office in India, which ran a pilot with a microfinance institution called Opportunity International to evaluate the card's use and impact. Opportunity International's loan officers found that nearly every borrower interested in applying for a housing loan already had some type of land document. "There were almost no opportunities to use the STAT card," recalled Kelley. "It ended up being such a niche tool that it was hard to even practice it."

As MicroBuild progressed, adding more and more microfinance institutions to its portfolio, the Habitat team learned that the India pilot was representative. Even though Habitat staff were introducing loan officers to the STAT card as part of the technical assistance sessions, no microfinance institution's loan officers were actually using the STAT card. There were two main reasons: First, as in the India pilot, the STAT card was usually unnecessary for establishing a borrower's security of land tenure. Most of the borrowers to whom the microfinance institutions were offering the loans already had some type of tenure documentation, which obviated the need for another form. The loan officers—whose job performance was evaluated by the number of loans they could get out the door and see successfully repaid—were tending to offer the new housing loan product to trusted, existing clients, who were more likely to have documents and with whom the microfinance institution had an existing relationship.

Second, there was a capacity issue. For many of the microfinance institutions, the housing loan was a novel product. Developing the product and then conducting the loan evaluation process required loan officers to learn new types of financial analysis and other practices. "We realized that the institutions had so many other things they were taking on with the MicroBuild project that they didn't want to take on this additional burden of conducting the STAT card," said Patel.

And yet the STAT card required relatively little of a loan officer: visiting the property, viewing documents, and interviewing people in the neighborhood. Loan officers' reluctance conveyed to Habitat a greater message: microfinance institutions were not going to provide tenure services of any kind.

*Creating a viable test case*

That microfinance institutions would not provide tenure services meant that Habitat would have to devise a new business model to prove the home-improvement-moment theory: that the moment a low-income borrower took out a home improvement loan was the optimal time to also offer the borrower tenure security services.

The Habitat team refined a model that brought together three types of participants: (1) a microfinance institution, which could provide financing; (2) an enterprise that could provide tenure services; and (3) Habitat itself, which could act as adviser and facilitator. Together the three would develop a bundled loan product for both housing improvements and tenure services. The microfinance institution would sell that loan to clients, and the loan would pay the enterprise to help the borrower obtain a formal land title.

The Habitat team reasoned that if it could demonstrate that this model successfully delivered formal land titles to low-income landowners—and that it was profitable for both the microfinance institution and the services provider—then Habitat could use its global network to prompt other microfinance institutions to try the same thing. "Our goal was to create an entire plan and model that demonstrated success and that we could then take to other institutions to show that this could be done and here's how you do it," said Patel. "We know from experience that if you can prove that something works once, then you're able to do it many times."

The challenge was to develop a successful test case.

Since the 2000s, a handful of start-ups had emerged that offered land tenure services. They were for-profit businesses that also had social missions. By using technology, applying their knowledge of government titling bureaucracies and their procedures, and taking advantage of their relationships with those bureaucracies, these businesses gathered all the necessary data and information and furnished it to the government to obtain a formal title at a fraction of the cost of other providers.

In 2009, Habitat worked with such a service provider in Ghana called Medeem. In a project funded by USAID, Habitat, Medeem, and microfinance institution Opportunity International conducted market research and product development that centered on the idea of bundling a housing improvement loan with a service that would provide a borrower a portfolio of the documents necessary to begin the formal land-titling process in Ghana.

In 2012, the Habitat team again contacted Medeem to resuscitate and expand the idea into the more mature business model. After initial conversations, it became clear to Kelley that Medeem did not yet have a viable service offering that it could bring to a microfinance institution.

The next year, Kelley reached out to Matt Alexander, cofounder and CEO of a property formalization services social enterprise in Colombia called Suyo. The timing of Kelley's outreach was propitious: Suyo's business model was just then undergoing an evolution that made Habitat's proposal a welcome fit.

Suyo was a one-stop provider of property formalization services. In total, it offered nine types of legal and or structural services, including land titling, successions, subdivisions, zoning compliance, building registrations, property appraisals, and document corrections. Suyo's mission was to help clients move up the ladder of tenure security—whether that meant obtaining full titles or preparing some of the evidence that would strengthen clients' property claims.

It was complex, complicated work because individual clients' needs varied widely. "In some ways, the experience of figuring out what is wrong with your property rights documentation with Suyo is like taking your car to an auto-mechanic for repair," said Alexander. "Our customers know something is wrong with their tenure status, but they don't understand exactly what the problem is and how to fix it. We first conduct a property diagnostic to clarify the problem, identify the path required to resolve it, and determine the type of financing that could be available for the customer."

When they conducted property diagnostics, Suyo staff collected as many as 140 data points that included such things as utility bills, financial information, voice recordings of testimony from the landowner and neighbors, and geospatial information. Through the years, the company had adopted technologies to digitize or automate as many data collection processes and other processes as possible, thus bringing down costs. To verify data and understand a client's needs, Suyo cross-referenced its data against satellite imaging and that of the official databases of up to 13 different Colombian government agencies.

At first, Suyo's business model was to sell its services directly to low-income clients. "We detected a high demand for the services, but we quickly realized that people didn't have the money out of pocket to pay for them," said Alexander. Further, given the fraud and predation in the tenure services sector, it took time for a relatively new organization like Suyo to gain a potential client's trust.

Thus, in 2014, when Kelley and the Habitat team reached out, Suyo had already been exploring ways to partner with other institutions that the population trusted and that could provide financing to help low-income clients afford Suyo's services.

Habitat signed a contract with Suyo, and the two worked with Women's World Banking, a microfinance institution in Cali, Colombia, to develop a bundled home improvement tenure services loan product. Habitat's team helped Suyo understand the microfinance industry and home improvement loans, learn where there might be an entry point, and decide how to best pitch and present ideas.

Staff at Women's World Banking worked with Suyo, but the product they developed was ultimately rejected by the bank's senior management. Suyo had not yet standardized the service offering that would be a part of the product. And in the management's view, a newfangled, untested product that might involve multiple iterations before it could be widely offered and that depended on a partnership with a new enterprise was both a risky proposition and one that would divert the bank's resources away from the development of other financial products that were already fully validated. "Given the level of risk and uncertainty and the still-early stage of the product, the bank wasn't willing to make the investment," said Alexander.

More broadly, there was an organizational mismatch. "What we saw was that a large, established microfinance institution like Women's World Banking and a start-up-type enterprise like Suyo were a bit like oil and water," said Kelley. "Conceptually, they were on the same page when it came to the importance of tenure security, but operationally, they were totally different." The microfinance institution was interested in improving efficiency, cutting costs, and attaining greater scale and not so much interested in experimenting with new products that, even though they aimed to meet a client's needs, had yet to prove viable.

With the Suyo project unsuccessful, the Habitat team looked elsewhere. It was not until 2017 that it found another viable enterprise. That was when a consultant introduced Patel to Simon Ulvund, founder of Meridia. Like Suyo, Meridia was a one-stop shop for property formalization services. And its business had encountered similar challenges and undergone an evolution similar to Suyo's. Meridia started off in 2015, providing tenure services directly for farmers in Ghana. It had developed a technology platform that enabled it to gather and process data, and it had built relationships and signed an operating agreement with the government. Even though it had gotten costs down to $55 to $100 per land title and had helped a few thousand farmers obtain formal titles, the lack of financing for the farmers meant that Meridia was spending much energy managing payments from and defaults by clients. “We had to decide: did we want to be a tenure services company or a financing company?” said Ulvund.

Ulvund began talking with multinational corporations such as Unilever that sourced cocoa and other commodities from Ghana. He learned that those companies were interested in obtaining formal land titles for the farmers whose harvests they purchased. Sometimes the farmers were evicted from their land and were unable to deliver their crops. If the farmers had secure land tenure, the company’s supply chain would be more reliable and less prone to this type of disruption. The companies hired Meridia to conduct large-scale land mapping and titling projects—first in Ghana and then in Ivory Coast, Malawi, and Indonesia. By 2018, 80% of Meridia’s revenue was coming from those businesses, and the firm was mapping the land of more than 2,000 farmers per week.

Such progress meant that when Patel met Ulvund in 2018, Meridia had a standardized service offering that it had demonstrated could work at scale in a particular country. Habitat contracted Meridia to work with Habitat in finding a Ghanaian microfinance institution with which they could develop a loan product for both housing improvements and the same tenure services offering Meridia was providing for corporations. “It was a good opportunity for us. We were still looking for financing sources, and Habitat had lots of advice and experience with regard to how to work with microfinance institutions,” said Ulvund. “Habitat also equipped us with the language needed to understand and communicate with the financial sector.”

Meridia met with three different microfinance institutions to pitch the idea of a bundled product, to perform market feasibility research, and to conduct initial product development workshops. It demonstrated that there was high demand among Ghanaian households for securing financing that would both improve their homes and get them formal land titles.

“Initially, these institutions seemed very excited about the idea of a housing-tenure services product,” said Patel. “But then, when it came time to actually create and test the product, they showed no interest in doing that.”

The experience was similar at all three microfinance institutions, and Meridia was persistent; but after trying without result for nearly a year, both Patel and Ulvund concluded that none of the institutions would be willing to see the product through. “They’re banks, which means they’re risk averse and reluctant to experiment,” said Ulvund. “Ultimately, they didn’t see the value that a non-financial-services product could add for them.”

As in Colombia with Suyo, the effort in Ghana had failed to yield a successful business model for financing home improvement and tenure services for low-income people.

## OVERCOMING OBSTACLES

Despite the setbacks, the Habitat team was not ready to give up on proving that its microfinance–land tenure business model would work. MicroBuild’s core business of making housing microfinance loans was succeeding beyond Habitat’s expectations, with more than 50 microfinance institutions in more than 30 countries having disbursed loans to nearly 200,000 households. So Habitat knew that the home improvement loans were viable. And if nothing else, the experience in Ghana had demonstrated that Meridia was a viable tenure services provider. The only piece missing was a microfinance institution that would be willing to take a chance on the new product.

And in early 2019, Patel said they might have found the right institution in the right country and at the right time.

Later that year, voters in Indonesia would head to the polls to decide whether President Joko Widodo deserved a second five-year term in office. With an estimated 80% of land in Indonesia untitled and property disputes common, Widodo had made providing formal certificates a key campaign platform, promising that the government would issue 126 million by 2025.[11] Land titling was a high-profile national issue, and there was political pressure on local and national land-titling authorities to deliver. Further, Meridia was already working with a large multinational in Indonesia, providing titles for smallholder farmers. It had memorandums of understanding with relevant government agencies and a standardized service offering that was already delivering titles to those farmers.

Habitat executed another contract with Meridia: this time to attempt a partnership in Indonesia with an institution already familiar to the Habitat team—Koperasi Mitra Dhuafa (KOMIDA)—which was a type of microfinance institution different from most of the ones involved in MicroBuild. For one, KOMIDA was not a commercial lender but, rather, a credit and savings cooperative—a financial institution that provided banking services for its members, each of whom held an ownership share in the cooperative. All of its more than 700,000 members were women. "We care for the poorest women," was its motto.

KOMIDA had grown 40% on average each year since its founding in 2005 as a foundation to provide relief for victims of the Indian Ocean tsunami in the province of Aceh on the island of Sumatra. As of 2019, it had nearly $100 million in loans outstanding and held around $40 million in savings. It had a staff of nearly 4,000 spread across 287 branches in 12 of Indonesia's 34 provinces.

KOMIDA had a diverse product offering and a track record of experimentation and of partnerships with international organizations. In 2015, it had worked with nonprofit Water.org to launch a loan product that financed household water and sanitation improvements. The next year, it partnered with Habitat for Humanity's Indonesia national office on another project unrelated to MicroBuild. As of 2019, KOMIDA also offered its members loans for school fees and other education expenses, as well as nonfinancial services such as services for health care, childhood education, and financial management.

Each year, KOMIDA's management team invited thousands of members to a meeting to convey those members' thoughts on what they needed. The team would then try to come up with a new product to meet one of those needs. "They were less top-down than the other microfinance institutions we had worked with, and they were in close touch with their members. They developed and tested products in response to and in consultation with their members," said Ulvund.

At the 2018 annual meeting, property-tenure formalization was one of the top needs members expressed. Later that year, when Habitat for Humanity Indonesia conducted an evaluation of the housing microfinance loan product, more than 20% of members surveyed said they wanted to use that housing loan to obtain a formal land title. "KOMIDA's management heard that its members wanted land titles," said Balani. "The need came from the community directly."

In August 2019, Habitat, KOMIDA, and Meridia signed a memorandum of understanding that detailed the roles and objectives of the three organizations in creating and launching a bundled housing improvement–land tenure services loan product. In November, Meridia staff conducted a survey, interviews, and a focus group discussion among KOMIDA members at a branch in the province of West Java. The respondents said they were interested in obtaining land tenure documentation, and they were willing to pay for it.

Armed with that feedback, Balani and a small team from Habitat's Asia Pacific office facilitated a multiday workshop in Jakarta, wherein staff from Meridia and KOMIDA designed the joint loan product. The loan amount would be 3 million rupiah to 5 million rupiah ($200 to $350), with an annual interest rate of 22%. Meridia would gather data and work with the government to obtain the land titles, but to ensure trust, KOMIDA staff would handle all interaction and communication with clients. KOMIDA would pay Meridia directly for the land-titling fees, and then the member would pay KOMIDA back in weekly installments for a one- to two-year period.

To validate the product, Meridia held focus groups at two KOMIDA branches. Participants in the focus groups expressed interest in taking out the proposed home improvement–land tenure loans. All agreed to the loan amounts, and half agreed the interest rate was acceptable.

"We tested it out, and it worked very well," said Ulvund. "We were excited about it."

In February 2020, MicroBuild Fund manager Triple Jump alerted the fund's investment committee that it was going to propose making an investment in KOMIDA to finance the joint product. Meridia and KOMIDA had identified a branch for conducting a pilot offering of the product with 40 or 50 households. They would incorporate lessons from the pilot to then conduct a limited rollout at a handful of KOMIDA branches. Learning from this initial stage, they would continue to scale up and offer the product at greater numbers of branches.

Finally, it seemed, Habitat had brought the right partners together. The test case to demonstrate the business model could work was materializing.

Then, on March 2, Indonesia reported its first case of COVID-19. As the virus that caused the disease spread, government-ordered closures and physical-distancing regulations caused the economy to grind to a halt. With its members unable to make payments on existing loans, KOMIDA postponed the project indefinitely.

## ASSESSING RESULTS

By 2020, MicroBuild had funded 55 microfinance institutions in 32 countries. It had by then disbursed $141.2 million (the fund lent out repayments as they came in—a common practice for an investment fund), and it was on track to fully repay OPIC (which, after a merger, had been rebranded as Development Finance Corporation) and all of the equity partners by 2025. More than 202,200 households had received housing microfinance loans, affecting 1,011,015 individuals. An estimated 69% of those clients were rural, and 74% were female. Few microfinance institutions failed to repay, and in every case, political risks beyond the control of Habitat or the institution were the causes.

Habitat found that from the time it first began allocating the fund's $100 million, the microfinance institutions it worked with had by 2020 more than $400 million in their housing microfinance portfolios. For instance, one microfinance institution in Tajikistan borrowed $2 million from MicroBuild, and by 2019, its total housing microfinance portfolio was $10 million.

"I like to say humbly that even in our wildest expectations, we did not know MicroBuild would be this successful as a first demonstration fund," said Patel.

But the results of Habitat's attempts to improve tenure security for low-income households were less successful.

To test Kelley's adverse-possession theory—that if homeowners took out housing loans it would improve their sense of ownership security—Habitat contracted charitable organization Oxfam Novib to conduct impact evaluations that measured the socioeconomic effects of housing improvement loans among clients of two housing microfinance institutions: one in El Salvador and one in Bosnia. The two evaluations found no correlation between a housing improvement loan and increased perceptions of ownership of a property.

Results were mixed for the missed-market-opportunity theory, which held that if microfinance institutions assessed and had a better understanding of their clients' property rights, they would realize the opportunity to offer them more housing loans.

Habitat found that after receiving the technical assistance from Habitat, microfinance institutions did ask their clients about land tenure. "That was new. Our team really did help these institutions incorporate land tenure considerations into the lending process," said

Kelley. In a 2017 Habitat-conducted survey of microfinance institutions, 78% of institutions said they conducted some kind of assessment of a client's land tenure in the loan application process,[12] yet in that same survey, microfinance institutions reported that their primary constraint to offering more housing loans was that clients lacked formal title.[13] Still, the institutions declined to use the Secure Tenure Assessment Tool (STAT) card or to otherwise attempt to help potential borrowers obtain land title.

Microfinance institutions lent to clients who they were confident would repay—not necessarily those who were most in need of housing loans. "Loan officers are motivated to get as many viable loans out the door as quickly as possible, so they tended to offer the housing loans to their best customers first—people they knew well and of whom they didn't need a thorough assessment to have confidence in the security of their land tenure," said Peter Rabley, who from 2012 to 2019 was an investment officer at Omidyar Network and a member of the MicroBuild board. "As a result, the loan process didn't provide additional tenure security for those who needed it," he added. That reflected a shortcoming not just of the effort to provide tenure services but also of the MicroBuild Fund overall: that it did not reach those who were most in need.

MicroBuild failed to lend to microfinance institutions in Africa. Among other reasons, very few institutions in Africa had the capacity and standards necessary to develop and administer a housing microfinance product with the level of fidelity required by MicroBuild's investors. In addition, currency-hedging costs were high in Africa, and much donor money and cheap development financing were available such that Habitat "found we would almost have to lose money to work there," said Kelley. A 2015–16 Habitat survey of institutions that offered housing microfinance loans found that institutions in the Middle East and North Africa region reported that only 30% of clients were able to produce formal titles and that only 18% of clients were able to produce another document in lieu of a formal title.[14] Thus, the region where the problem was the most acute was the region that MicroBuild failed to reach.

With the COVID-19 global pandemic postponing the launch of the KOMIDA–Meridia product in Indonesia, Habitat was still waiting to demonstrate a viable business model for tenure services financing. The home-improvement-moment theory—which held that when a borrower took out a housing loan to improve a property, that was when the borrower was most willing to pay for land tenure services—had yet to be proved. The engagements with Suyo in Colombia and Meridia in Ghana had failed to bear fruit. And although the Meridia project in Indonesia had shown promise, the pandemic had derailed it. In May 2021, however, KOMIDA's management team informed Habitat and Meridia that it was ready to resume the project.

## REFLECTIONS

With the advent of one-stop shop for property formalization services Meridia's project with microfinance institution Koperasi Mitra Dhuafa (KOMIDA) just coming back on line in mid-2021, the story of Habitat for Humanity International's attempt to finance land tenure services for low-income people remained incomplete. Throughout the failures in Colombia and Ghana, the Habitat team had stuck to its belief that if it could demonstrate just one successful test case of the business model, wherein a microfinance institution and a tenure services enterprise profitably offered a joint housing loan–tenure services product to low-income clients, then other institutions would emulate it. "It is possible to make this business model work," said Jyoti Patel, Habitat for Humanity's senior director of impact investments. "We just have to showcase it with a successful case, and we have not had that case so far."

The KOMIDA–Meridia partnership had the potential to be that case.

"You could use this as a blueprint," said Simon Ulvund, CEO of Meridia. "Our collaboration with KOMIDA has worked well so far. They understood that we could add value to a product for their members. Most banks struggle to see how nonfinancial services could add value for them, and thus attempts fail. But this partnership—wherein we do *our* core business and the bank does *its* core business—looked like it could work."

Various conditions enabled the nascent success: First, with land titling a hot-button political issue in Indonesia, the national context was conducive. President Joko Widodo had won reelection in 2019, and his administration was advancing efforts to provide land titles. Potential borrowers were aware of the benefits formal title could confer, and the land authorities had motivation to deliver.

Second, unlike a typical microfinance institution in the MicroBuild Fund portfolio, KOMIDA was a more flexible, innovative institution that was willing to experiment with an untested business model. It was a cooperative and had both a strong sense of social mission and a closeness to its members that commercial lenders might have lacked.

And third, Meridia was ready to go to market with a standardized service offering that had already proved viable with agribusinesses in Indonesia. That meant less risk and less uncertainty for KOMIDA.

Still, even with a successful demonstration case, there was no guarantee that microfinance institutions worldwide would adopt the model. In principle, linking a tenure services provider with a microfinance institution was practical. "In the US, when you take out a mortgage, it includes title insurance and an array of services that are baked in to ensure that the title is accurate," said Tim Rann, who as a managing partner of Mercy Corps Ventures Fund oversaw the nonprofit's investments at Suyo, Meridia, and other social impact enterprises. "So it seems really logical that in a developing-world context, tenure services and a housing loan could be bundled. And when it's bundled at some scale, the costs go down and it de-risks everything for all parties."

But in practice, the reluctance of microfinance institutions in Colombia and Ghana to partner with Meridia or Suyo could be the norm, and the success with KOMIDA the outlier. "In our experience, a lot of the companies we've invested in have found that microfinance institutions are not reliable partners," said Rann. "And in their defense, if I were a microfinance institution, why would I want to work with a start-up? There's a lot of risk there. And unless that start-up can do something at scale that has a meaningful impact on my balance sheet or income, then why would I divert time and energy and political capital to doing that when I could sell, for instance, insurance products or some other financial product."

In retrospect, Patrick Kelley, director of housing finance and market development at Habitat for Humanity International, and the Habitat team believed that aspects of the design and implementation of the land-tenure-services aspect of MicroBuild could have been tweaked. For instance, Habitat could have committed more time and resources—a venture capital investment, for instance—to helping Suyo develop and prove a standardized service offering before approaching microfinance institutions. "I think that right out of the gate, we needed budget to invest in those enterprises," said Kelley. "A large investment would have helped them scale up and standardize their service offering more quickly."

Also, the high debt-to-equity ratio of the MicroBuild Fund prompted Triple Jump, the fund manager, to minimize risk by prioritizing the creditworthiness of a microfinance institution over its commitment to social impact or client needs. That meant the MicroBuild Fund was selecting microfinance institutions that were well-established incumbents and perhaps more risk averse than smaller, newer institutions might have been. "This is an interesting question: did the risk aversion of the fund manager and the fund's investment committee overly narrow the universe of microfinance institutions that were considered for MicroBuild funds?" said Deborah Burand, a member of the MicroBuild board and investment committee, adding, "And consequently, did we prioritize creditworthy institutions at the expense of crowding out other institutions that might have been more open to some of the tenure security issues? Given the high leverage ratio of the fund, the thumb generally has been on the scale of the creditworthiness side in assessments of potential borrowers from the fund. If there had been more room for risk taking without jeopardizing the ability of the fund to repay its lender, maybe we would have been more open to lending to less-creditworthy institutions that were more focused on land tenure security issues."

Beyond microfinance institutions and a bundled housing loan product, Suyo and Meridia were exploring alternative business models that could effectively deliver property formalization to low-income people at scale. Meridia had already demonstrated success with large agribusinesses.

After failing to create a viable model with Women's World Banking in Colombia, Suyo established partnerships with other microfinance institutions in Colombia, developing and piloting loan products solely for property formalization services. Suyo deployed financing through these partnerships and products, but uptake was too little to scale the model. Instead, like Meridia, Suyo found nascent success by partnering with corporations interested in financing tenure services for their employees as a benefit.

"What we've learned from all of this is that a scalable business in the low-income market requires some level of subsidization," said Matt Alexander, CEO of Suyo. "Even if we had the perfect financing product, for the business model to work, the majority of low-income clients need a subsidy to defray a portion of the service cost. Scaling these services is more feasible with a blended financing approach that combines payment out of pocket from the customer, loans from financial institutions, and partial subsidies from employers, the government, and foundations."

Other businesses could conceivably play the financing role. Lack of land documentation deprived governments of vast sums of property tax revenue each year. By partnering with a major commercial bank, for instance, a government could fund land titling that would more than pay for itself through the ensuing tax revenue. "It seems obvious that you could design an impact bond around land tenure," said Rann. "A party like JP Morgan provides upfront funding for 20,000 land titles in Bogotá because the Colombian government doesn't have the money to do so right now; Suyo, as a service provider, delivers those land titles; and tax revenue starts coming in to the government, which can then pay back JP Morgan with interest or a defined return on investment. Like in agribusiness, I think there's a huge opportunity there."

**Figure 1. The Secure Tenure Assessment Tool (STAT) card**

| Secure Tenure Assessment Tool (STAT) India | 0 / 1 / 2 |
|---|---|
| Neighbors (ask two) agree that client can stay on current site for at least twice the length of the loan period. | |
| Neighbors agree (ask two) that in the case of client death or disability, the family would stay in occupancy. | |
| Utility bill comes to this address in loan applicant's name. | |
| Local community leader agrees to stability of tenure for period of at least twice that of the loan amount. | |
| Property is not located within 0.25 kilometer of a highway, railroad, dam, airport or major instrastructure project. | |
| TOTAL | |

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