



Centre for Affordable  
Housing Finance  
in Africa

# HOUSING INVESTMENT LANDSCAPES

BOTSWANA

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## 1 Introduction

This country report forms part of The Centre for Affordable Housing Finance's Investor Programme, which aims to fill crucial gaps in information about who invests in the African housing sector, for what reasons and how they do so. The overall goal is to quantify the investment activity in housing and housing finance across Africa, and to establish a mechanism to track this on an ongoing basis. Data collected highlights gaps and opportunities in the investment landscape. This report on Botswana, to champion increased investment in affordable housing, includes insights into and analysis of the depth and breadth of investment in the country's housing and housing finance sector. And to stimulate greater investment in affordable housing and connect investors with potential investments, the report profiles investors and investment instruments with the greatest impact on the housing finance market within the Southern Africa Development Community (SADC).

Growing financial sector experience and increasingly sophisticated financial instruments are driving Investor interest in African real estate. This includes new market opportunities related to a rising urban middle class, an increasingly localised construction material industry and innovations in housing finance such the emergence of Real Estate Investment Trusts and mortgage liquidity facilities across Africa.

However, the chronic lack of rigorous data on the breadth and character of financial infrastructure investment presents a key barrier to this growth. This is particularly true for the housing sector, as stimulating targeted investments requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved markets (segmenting and quantifying the demand side; and scoping, understanding and tracking the supply side), we can support a better policy environment and increased private sector activity in affordable housing markets. In this way, we catalyse scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of non-performing loans and poor uptake of new residential developments.

## 2 Botswana

Botswana is one of the more robust economies in SADC and sub-Saharan Africa in general, thanks to a stable political environment, prudent economic management, a profitable mining sector, and a relatively small population of two million people. Botswana's three-year average Gross Domestic Product per capita of \$7 023 makes it an upper middle-income country.<sup>1</sup>

After a few years of sluggish growth between 2012 and 2015, the country's economy is now on an upwards trajectory, with real economic growth projected to average 4 percent until 2021.<sup>2</sup> Botswana also boasts one of the highest sovereign debt ratings in Africa and within SADC, it ranks third behind South Africa in the World Bank 2019 ease of doing business index.<sup>3</sup> Rand Merchant Bank's (RMB) Annual Investment Attractiveness Index, which looks at both the economic activity and operating environment in a country and scores countries from 1 to 10 (with 10 being the best), gave Botswana a 5.4 in 2017, making it the third most attractive country to invest in within SADC (behind South Africa and Tanzania).<sup>4</sup>

Botswana's urbanisation rate – 2.30 percent in 2017 – is on the lower end of the scale for the region,<sup>5</sup> and it is one of only three countries in Africa (Tunisia and Mauritius are the other two) that does not have an overall housing deficit. A CAHF study showed a waiting list of 4 452, countrywide for turnkey housing loans provided by the government<sup>6</sup>. Nevertheless, shortages exist for the lowest income categories and affordability remains a key issue<sup>7</sup>. New housing stock supplied by the country's primary affordable housing developer and sole government housing authority, the Botswana Housing Corporation, is reported to be too expensive for more than half the population<sup>8</sup>. Encouraging private sector investment in affordable housing is thus critical.

Compared to its regional neighbours, Botswana's financial sector is small but healthy, likely due to its large natural resource revenue (especially diamonds) and the associated high degree of liquidity. Nevertheless, only 3 percent of the population reported using a home loan in 2017.<sup>9</sup> Most households still use non-mortgage credit to finance their housing. In addition, between 50 to 70 percent of land

<sup>1</sup> World Bank (No date). World Bank national accounts data, and OECD National Accounts data files <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=BW> (Accessed September 19 2019).

<sup>2</sup> World Bank (2019). The World Bank In Botswana. <https://www.worldbank.org/en/country/botswana/overview> (Accessed September 19 2019).

<sup>3</sup> World Bank 2019. Doing Business. <https://www.doingbusiness.org/en/rankings?region=sub-saharan-africa>. (Accessed September 15, 2019).

<sup>4</sup> Centre for Affordable Housing Finance in Africa (CAHF) (2018). Housing Finance in Africa Yearbook, 9th Edition. <https://housingfinanceafrica.org/documents/housing-finance-in-africa-yearbook-2018/> (Accessed September 15, 2019). Pg. 53.

<sup>5</sup> Ibid. Pg. 73.

<sup>6</sup> CAHF (2018) Botswana Country page. <http://housingfinanceafrica.org/countries/Botswana> (Accessed September 15 2019).

<sup>7</sup> El-hadj M. Bah, Issa Faye, and Zekebweliwai F Geh (2018). Housing Market Dynamics in Africa. London, United Kingdom, Palgrave Macmillan. <http://oapen.org/search?identifier=1002104>. (Accessed September 15, 2019) Pg. 18.

<sup>8</sup> World Bank (2015). Stocktaking of the Housing Sector in sub Saharan Africa. Washington, DC, USA, World Bank. Pg. 24-25.

<sup>9</sup> World Bank (2017) Global Findex Database 2017 data page. [https://globalfindex.worldbank.org/index.php/#data\\_sec\\_focus](https://globalfindex.worldbank.org/index.php/#data_sec_focus). (Accessed September 15, 2019).

transactions for housing take place in the informal markets.<sup>10</sup> Botswanans value owning their own home, which is reflected in the home ownership rate of 41 percent.<sup>11</sup>

In 2017, the government launched Vision 2036 as well as the Botswana Sustainable Development Goals (SDGs). Vision 2036 is aligned to the SDGs and corresponding objectives include sustainable, affordable housing for all.<sup>12</sup> The implementation of programs and policies aimed at achieving the objectives of Vision 2036 and SDGs is expected to improve the performance of the property market in Botswana.<sup>13</sup>

### 3 Profiles of Investors

The investment landscape in Botswana constitutes both local and foreign institutional investors. Below is a description of the two categories of investors, including their institutional type, sources of capital, and other parameters that define their investment model.

#### 3.1 Local Institutional Investors

##### Capital Markets

The Botswana Stock Exchange (BSE) is a small but active stock exchange located in Gaborone, Botswana. It was set up in 1989 and became the Botswana Stock Exchange in 1994. The BSE lists 24 domestic companies, 10 foreign companies, and four exchange traded funds. None are real-estate related, though 17 financial institutions have a presence on the exchange.<sup>14</sup>

The government regularly issues both bills and bonds (primarily for capital market development and not to fund the budget), and has been making significant strides towards expanding the range of long-term finance solutions available to local investors and establishing a government yield curve.<sup>15</sup> Although the only primary dealers in Botswana's bond market are commercial banks,<sup>16</sup> pension funds are increasingly becoming important fixed-income investors, with pension fund assets as a percentage of GDP more than 40 percent in 2018.<sup>17</sup> The corporate debt market is dominated by financial institutions, most of which are international institutions operating in the country.

As of March 2019, Moody's listed Botswana's sovereign rating at A2 for both local and foreign currency.<sup>18</sup> Moody's noted a strong balance sheet and low debt burden as the country's credit

<sup>10</sup> El-hadj M. Bah, Issa Faye, and Zekebweliwai F Geh (2018). Housing Market Dynamics in Africa. London, United Kingdom, Palgrave Macmillan. <http://oapen.org/search?identifier=1002104>. (Accessed September 15, 2019). Pg. 112.

<sup>11</sup> Housing Finance Information Network (Hofinet) (2017).

<http://www.hofinet.org/countries/country.aspx?regionID=8&id=24> (Accessed September 15, 2019).

<sup>12</sup> Ministry of Local Government, Botswana, web page (2016). <http://www.gov.bw/en/Ministries--Authorities/Ministries/Ministry-of-Local-Government-MLG1/News/VISION-2036-Prosperity-for-all/> (Accessed September 15, 2019).

<sup>13</sup> CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 75.

<sup>14</sup> African Markets website (no date). (<https://www.african-markets.com/en/stock-markets/bse/listed-companies>). (Accessed September 16, 2019)

<sup>15</sup> African Financial Markets Initiative (2019). Web page. <https://www.africanbondmarkets.org/en/country-profiles/southern-africa/botswana/> (Accessed September 16, 2019).

<sup>16</sup> Ibid

<sup>17</sup> <http://www.oecd.org/daf/fin/private-pensions/Pension-Market-in-Focus-2018.pdf> page 7.

<sup>18</sup> [https://www.moody.com/research/Moodys-Botswanas-credit-profile-is-supported-by-strong-balance-sheet--PBC\\_1163127](https://www.moody.com/research/Moodys-Botswanas-credit-profile-is-supported-by-strong-balance-sheet--PBC_1163127)

strengths. Weaknesses included its small economy with a heavy reliance on diamond exports. Botswana is one of just four investment-grade countries in Africa.<sup>19</sup>

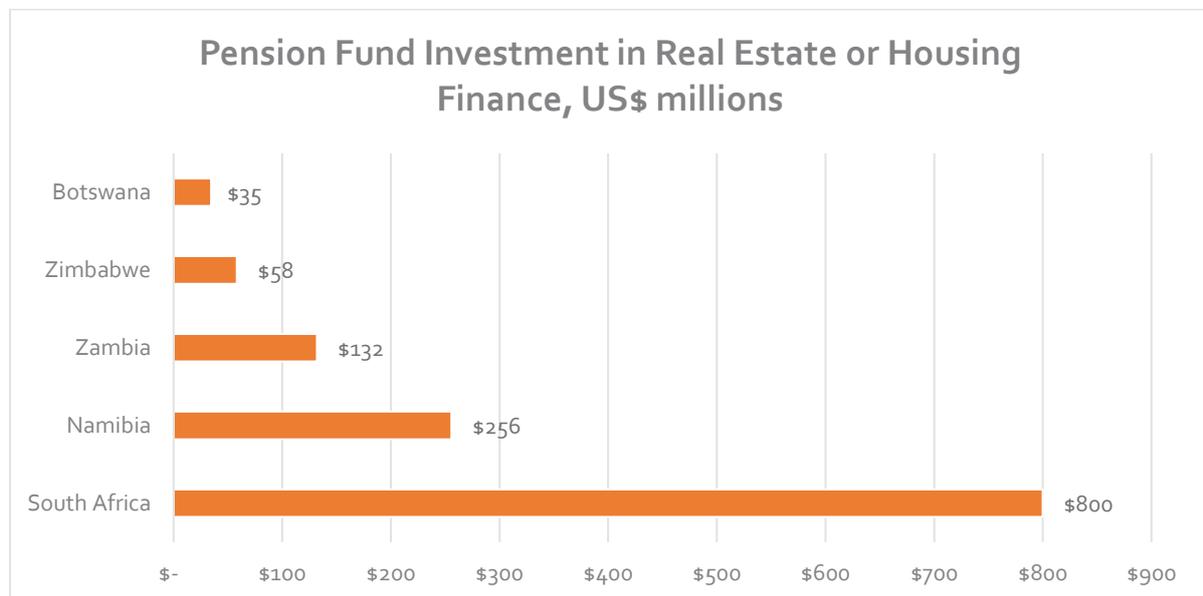
## Pension Funds

Research has shown a positive correlation between the level of development of housing markets and the participation of pension fund investment in real estate. As important, however, is that most data on pension fund investments does not distinguish between the several types of property investment classes. Residential and commercial are simply grouped into one class. It is likely that most capital is invested in the commercial real estate sector, where there is more liquidity, and which offers greater investment opportunities. Housing is an inherently riskier asset class and a low level of market information makes it difficult for investors to project returns, thus deterring targeted investments.

Botswana's pension fund system is relatively large: During the financial year ended March 31, 2017 there were 86 licensed retirement funds, with total assets amounting to 44 percent of GDP in 2016.<sup>20</sup> Over the past 20 years, the legal framework for the pension systems has provided a good basis for the development of the sector.

Botswana's Non-Bank Financial Institutions Regulatory Authority reports that 0.49 percent of retirement funds' investment assets are in property, equivalent to P371m (US\$34.9 million).<sup>21</sup> This is the fifth largest share of pension fund investment in real estate in SADC, behind South Africa, Namibia, Zambia, and Zimbabwe.<sup>22</sup> On a per capita basis, it is exceptionally high. See the graph below for a comparative analysis.

Graph 2: Pension Fund Investment



Source: CAHF research.

<sup>19</sup> RMB (2018). Where to invest in Africa 2018. <https://www.rmb.co.za/where-to-invest-in-africa-2018-edition/> (Accessed September 16, 2019).

<sup>20</sup> Non-Bank Financial Institutions Regulatory Authority (2017). Annual Report. Pg. 39.

<sup>21</sup> Ibid. Pg. 39.

<sup>22</sup> CAHF (2018). The Housing Investment Landscape in the Southern African Development Community.



### 3.2 Government Investment

The government of Botswana is one of the largest investors in the country's housing sector. Its interventions, however, are largely in the form of direct provision, rather than a facilitator of land, housing, and housing finance markets.

Provision of housing in Botswana is guided by the National Policy on Housing (NPH) of 2000 whose objectives include:<sup>23</sup>

- Facilitating housing provision in partnership with stakeholders;
- Channeling more government resources to low and middle lower income housing;
- Promoting housing as an instrument for economic empowerment and poverty alleviation;
- Fostering a partnership with the private sector and all major employers in home development.

#### Botswana Housing Corporation (BHC)

The government-owned Botswana Housing Corporation (BHC), established in 1971, is the primary housing developer in Botswana. Historically it supplied the housing needs of government, local authorities, and the general public, by providing housing for rental, although in recent years it has also been offering houses for sale. By 2010, BHC had delivered 17 000 houses.<sup>24</sup> The BHC's current strategy is to deliver an average of 1 500 social housing projects and 1 800 commercial housing projects a year.<sup>25</sup> In 2018, the entity delivered 1 320 houses, down from 1 591 in 2017.<sup>26</sup>

Homes built by BHC were reported to cost approximately P300 000 to P400 000 (US\$27 831- \$37 000) in 2011.<sup>27</sup> Houses currently for sale on its website are listed at P440 160 (US\$40 834).<sup>28</sup> Using CAHF's online affordability dashboard, a \$41 000 house would cost \$676 a month in mortgage payments, and \$212 049 over the term, at an interest rate of 8.4 percent over 25 years, assuming 10 percent deposit. All else being equal, this house would be affordable to 20 percent of the urban population.<sup>29</sup>

#### Government Subsidised Housing Programs

Government helps Botswana citizens to buy or develop properties by guaranteeing 25 percent of each mortgage delivered through the Botswana Building Society (BBS),<sup>30</sup> as is further discussed in the mortgage market section of this report. In addition, government guarantees 80 percent of mortgage loans for all public officers under Government Employee Motor Vehicle and Residential Property Advance Scheme (GEMVAS).<sup>31</sup>

<sup>23</sup> Botswana Ministry of Land and Housing (2014). Botswana National Report, Habitat III Conference. Pg. 45.

<sup>24</sup> Berge, C and Jing, F. (2011). Housing Finance: The Case of Botswana. Stockholm School of Economics. Pg. 22.

<sup>25</sup> Dikuelo, P. (2017). BHC plans to build 2,000 houses. 20 Sep 2017. Mmegi Online.

<http://www.mmegi.bw/index.php?aid=71846&dir=2017/september/20>. (Accessed September 17, 2019).

<sup>26</sup> Botswana Housing Corporation (2018) Annual Report 2018. Pg. 15.

<sup>27</sup> Berge, C and Jing, F. (2011). Housing Finance: The Case of Botswana. Stockholm School of Economics. Pg. 42.

<sup>28</sup> Botswana Housing Corporation (no date). Website. <http://www.bhc.bw/> (Accessed May 8, 2019).

<sup>29</sup> CAHF (2018). Calculating Mortgage and Housing Affordability in Africa.

<http://housingfinanceafrica.org/dashboards/calculating-mortgage-and-housing-affordability-in-africa/> (Accessed September 16, 2019).

<sup>30</sup> CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 76.

<sup>31</sup> Ministry of Lands and Housing (2014). Botswana National Report for Habitat III. Pg. 36.

Other subsidised programs include the Home Improvement Loan, Turnkey Housing, the Integrated Poverty Alleviation and Housing program, the Public Officers Housing Initiative (POHI), the Instalment Purchase Scheme (IPS Tenant Purchase Scheme) and Youth Housing (all under the Ministry of Infrastructure and Housing (MIH)<sup>32</sup>. Between 2008-2014, the Turnkey development scheme disbursed P309 million to 5 151 beneficiaries, resulting in the completion of 1 904 homes.<sup>33</sup> The Youth Housing Scheme provides high-density and multi-residential units for the youth and first-time homeowners earning between P3 000 (US\$292) and P7 000 (US\$682.50). The first 750 two-bedroom units are currently being constructed in Gaborone.<sup>34</sup>

In addition, the government-funded Self-Help Housing Agency (SHHA) provides subsidised serviced plots and construction finance to low income citizens to self-build their housing. In 2015, SHHA's beneficiaries could choose between a completed US\$6 744 house along with a zero-interest, 20-year loan, or a US\$5 058 home improvement loan (also zero-interest, 20-year term). Between 2008-2014, the SHHA home improvement scheme disbursed approximately P150 million (US\$14 million) to 3 553 beneficiaries, which resulted in the completion of 2 551 homes.<sup>35</sup> In 2013, the government allocated US\$6.9 million for the SHHA homes program (1 000 beneficiaries) and US\$2.23 million for SHHA loans program (444 beneficiaries).<sup>36</sup>

### 3.3 Foreign Institutional Investors

#### DFI Investment

Botswana has not been a large recipient of DFI investment in general over the past decade, probably because the country has a strong economy compared to other countries in the region. According to World Bank data, Botswana received \$102 000 of "net official development assistance" (ODA) in 2017.<sup>37</sup> This is approximately \$40 per capita, which compares to \$68 in Namibia, \$58 in Zambia, \$41 in Zimbabwe, \$21 in South Africa and just \$7 in Angola.

Most DFI investment relevant to this study has been aimed at supporting the financial sector and lending to SMEs, but not specifically aimed at the housing sector. The study found six relevant investments by the following entities: AfDB (US\$310 000 grant), the IFC (US\$25 million loan), the EIB (US\$5.6 million equity investment and \$22.4 million loan), UN Habitat (US\$120 000 grant), and CDC (undisclosed amount equity investment). These are detailed in Graph 3.

<sup>32</sup> Ibid

<sup>33</sup> Ministry of Lands and Housing (2014). Botswana National Report for Habitat III. Pg. 35.

<sup>34</sup> YourBotswana (2018). Youth Housing and Instalment Purchase Scheme update.

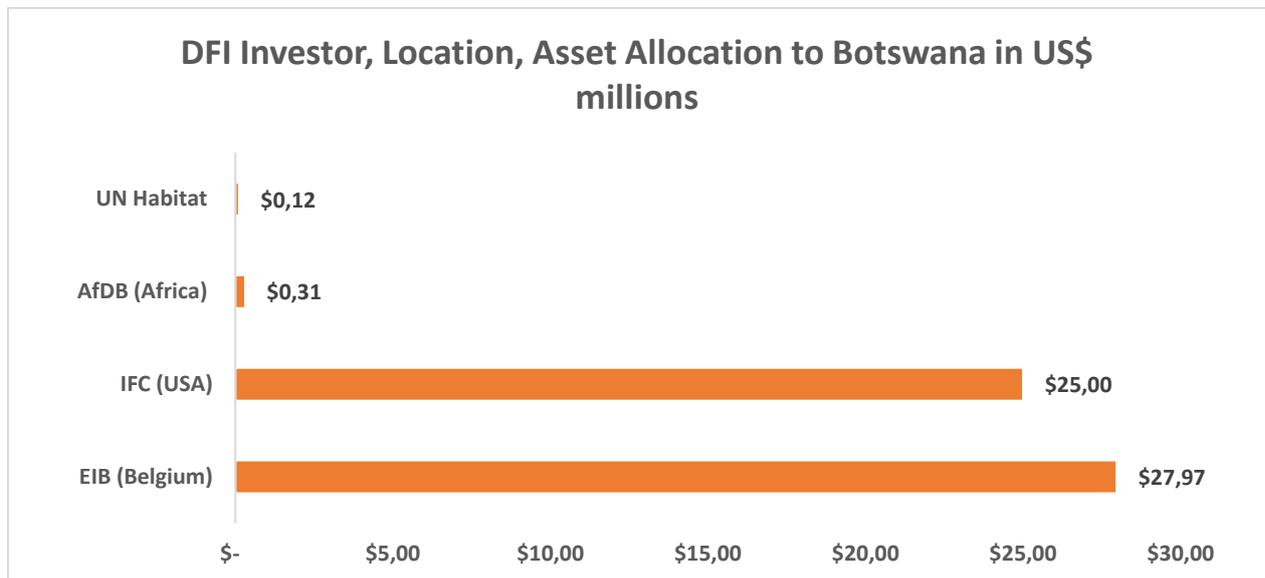
<https://yourbotswana.com/2018/01/07/youth-housing-and-instalment-purchase-scheme-update/>. (Accessed September 17, 2019)

<sup>35</sup> Ministry of Lands and Housing (2014). Botswana National Report for Habitat III. Pg. 35.

<sup>36</sup> World Bank (2015). Stocktaking of the Housing Sector in sub Saharan Africa. Pg. 34.

<sup>37</sup> "Net official development assistance (ODA) consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients. It includes loans with a grant element of at least 25 percent (calculated at a rate of discount of 10 percent)." <https://idea.usaid.gov/cd/namibia?comparisonGroup=region>

Graph 3: DFI Investment by Location and Asset Allocation in Botswana



Source: CAHF research

#### Housing-Related DFI Investments:

- In 2017, the EIB invested US\$5.6 million in International Housing Solution's (I.H.S.) Fund II.<sup>38</sup> This investment is further discussed under the ensuing private equity section.
- In 2017, the IFC extended a \$25 million senior loan with an interest rate at the Bank of Botswana Bank rate plus 2.1 percent a year. The long-term funding will support the transformation of the Society into a full-service commercial bank financing underserved clients, including small and medium enterprises. The loan was funded by the debut of the Kgalagadi Bond, which was oversubscribed. It is the first local currency bond issued by a non-resident issuer in Botswana and the first by an AAA-rated institution in the country. It is also the first amortising bond in the market.<sup>39</sup>
- In 2016, the AfDB approved a \$310 000 technical assistance grant to the Botswana Development Corporation, the country's state-owned development finance institution.<sup>40</sup>

<sup>38</sup> European Investment Bank (2018). Annual Report 2017 on EIB Activity in Africa, the Caribbean and the Pacific, and the Overseas Countries and Territories. [https://www.eib.org/attachments/country/ifc\\_annual\\_report\\_2017\\_en.pdf](https://www.eib.org/attachments/country/ifc_annual_report_2017_en.pdf). (Accessed September 17, 2019). Pg.12.

<sup>39</sup> International Finance Corporation (2017). IFC Bond Funds Botswana Building Society Expansion to Promote Financial Inclusion. <https://ifcextapps.ifc.org/ifcext/pressroom/ifcpressroom.nsf/0/F187F1A13D1F3A67852581F5004D19F4?OpenDocument>

<sup>40</sup> African Development Bank Group website (no date). Projects and Operations. <https://www.afdb.org/en/projects-and-operations/project-portfolio/p-bw-hbo-004/>



- In 2014, the EIB approved a US\$22.37 million loan to BancABC to promote SME and mid-cap lending.<sup>41</sup> The funds target companies with fewer than 3 000 employees and provide competitively priced finance and flexible repayment schedules.
- In 2013, UN Habitat initiated a Participatory Slum Upgrading Program in the cities/towns of Lobatse, Francistown and Gaborone. It received US\$120 000 of donor funding and was implemented from November 2013 to December 2015.
- In 2010, the UK's CDC made an equity investment in African Development Partners Fund I, a pan-African mid-cap generalist fund, that then invested in Letshego Holdings, headquartered in Gaborone, and further discussed under the Microfinance section of this report.

## Private Equity

Private equity activity in Botswana appears to be limited. The study did yield two relevant investments, however.

One of the largest investments into the financial sector has come from UK private equity firm Helios Credit Partners, which in December 2013 completed an investment of US\$100 million in Bayport Management Limited (BML), acquiring a 23.4 percent interest in the company. Other core shareholders include the founding partners, management, Investment AB Kinnevik (24 percent shareholding) and the Government Employees Pension Fund represented by the Public Investment Corporation Limited (PIC) (21 percent shareholding). Founded in 2001, BML is a leading provider of unsecured credit and financial solutions to the formally employed in Botswana, Ghana, Mozambique, South Africa, Tanzania, and Zambia. It is unclear how much of the \$100 million investment is dedicated to the Botswana operations. Moreover, as per Bayport's Botswana website, the financial institution does not currently offer loans specifically for housing. Credit products on offer include payroll loans and debt consolidation loans.<sup>42</sup>

In addition, in 2014, South Africa-based private equity fund International Housing Solutions (I.H.S.) launched IHS Fund II SSA, a multi-investor fund targeting investments in affordable housing, including green housing projects, within Namibia and Botswana. IHS Fund II SSA began operations in July 2014 and, by early 2018, had raised approximately \$74 million of Limited Partnership capital from five investors.<sup>43</sup> In 2017, the EIB invested \$5.6 million specifically for projects in Botswana. Desktop research did not yield any information on which projects the I.H.S. fund has invested in within the Botswana market.

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<sup>41</sup> European Investment Bank website (no date). BancABC Regional Facility for SME and Midcaps. <https://www.eib.org/en/projects/loan/loan/20140130>. (Accessed September 17, 2019).

<sup>42</sup> Bayport Financial Services (no date). Bayport's products. <https://www.bayportfinance.com/products-page-alternative/> (Accessed September 17, 2019).

<sup>43</sup> International Housing Solutions (no date). Funds. <https://www.ihsinvestments.co.za/funds/> (Accessed September 17, 2019)

## Chinese Investments

Chinese companies, both state-owned and private, are a frequent sight on the investment landscape in SADC. From 2000 to 2017, the Chinese government, banks and contractors extended nearly US\$60.5 billion in loans to SADC governments and their state-owned enterprises.<sup>44</sup>

Botswana was the sixth largest recipient of Chinese investment in the region with US\$931 million between 2000 and 2017.<sup>45</sup> Most of the capital was used on infrastructure projects, as well as manufacturing and energy.<sup>46</sup> Approximately US\$57 million was earmarked for Housing and Other Social Infrastructure Sectors.<sup>47</sup>

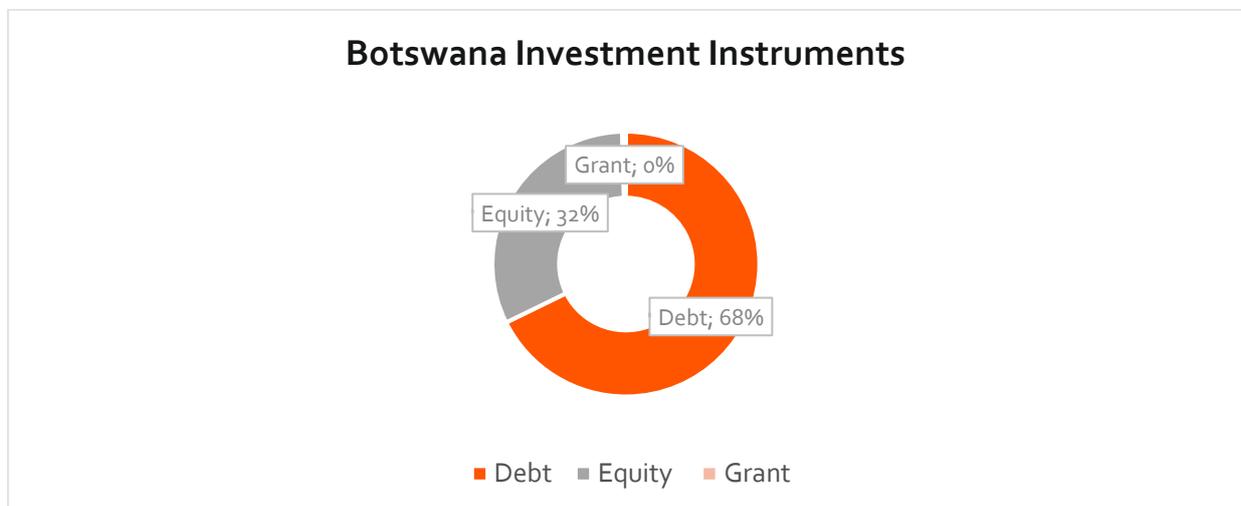
## 4 Investment Activity in Housing

This section analyses investment levels and different investment tools targeting the housing and housing finance sector in Botswana.

### 4.1 Investment Tools

As Graph 4 illustrates, the leading investment product for non-government investors in the broader Botswanan housing market has been debt. The fact that most international capital is deployed as debt reflects a general, global trend in DFI investing in long-term assets in emerging markets.<sup>48</sup>

Graph 4: Botswana Investment Instruments:



Source: CAHF Research

<sup>44</sup> SAIS China-Africa Research Initiative (2017). Loan dataset downloaded from: <http://www.sais-cari.org/data>. (Accessed May 08, 2019).

<sup>45</sup> Ibid

<sup>46</sup> Xiaojing, X. (2018). Botswana looks to investment from China to develop economy. 11 Dec 2018. Global Times. <http://www.globaltimes.cn/content/1131385.shtml>. (Accessed September 17, 2019).

<sup>47</sup> SAIS China-Africa Research Initiative, 2017. Loan dataset downloaded from <http://www.sais-cari.org/data>

<sup>48</sup> It should be noted that the aforementioned Helios Credit Partners equity investment in Bayport Management Limited was sized at 1/6 the total investment, to reflect the fact that Botswana is one of the six countries that BML operates in.

## 4.2 Investment Portfolio

The table summarises investment portfolio, investment activity/tool, and date of investment committed by institutional investors in Botswana’s housing and housing finance sectors:

Investor Name	Investor Type	Location of Investment	Description	Amount, \$US\$ million	Year First Investment
EIB	DFI	Botswana	Equity investment in International Housing Solutions fund for affordable and energy-efficient housing projects	5.60	2017
IFC	DFI	Botswana	Loan to Botswana Building Society	25.00	2017
AfDB	DFI	Botswana	Grant to Botswana Development Corporation to support the financial sector	0.31	2016
EIB	DFI	Botswana	Loan to BancABC to promote lending to SMEs and midcap companies	22.37	2014
Helios Credit Partners	Private Equity	Botswana, Ghana, Mozambique, South Africa, Tanzania, and Zambia	Investment in Bayport Management Limited (BML), acquiring a 23.4% interest in the company. BML provides unsecured credit and financial solutions to the formally employed.	100.00	2013
<b>Total</b>				<b>153.28</b>	

Source: CAHF Research, 2018

## 5 The Breadth and Depth of Housing and Housing Finance Products

### 5.1 Access to Mortgage Finance

In 2017, 51 percent of Botswanans aged over 15 held a bank account,<sup>49</sup> in line with the SADC average of 50 percent. Generally, there is a positive correlation between access to finance and the level of housing loans in a country. An estimated 10 percent of the Botswanan population holds a home loan, ranking it second in SADC in terms of mortgage penetration. Its mortgage penetration rate of 10 percent is high for the region, but low when compared to more developed economies.<sup>50</sup> In 2017, the Central Bank reported that Botswana's Mortgage to GDP ratio (including statutory banks) was 7.5 percent.<sup>51</sup>

### 5.2 Key Players

In 2017, four banks dominated the banking sector in terms of total assets: First National Bank of Botswana Limited (FNB), Barclays Bank of Botswana Limited, Standard Chartered Bank Botswana Limited, and Stanbic Bank Botswana Limited.<sup>52</sup> The three largest domestic mortgage lenders are reported to be FNB, the Botswana Building Society, and Barclays.<sup>53</sup>

Botswana Largest Mortgage Lenders, 2017 Portfolio in \$USD millions	
First National Bank of Botswana Limited (FNB)	\$ 402
Botswana Building Society	\$ 295
Barclays Bank of Botswana Limited	\$ 178
<b>Total</b>	<b>\$ 875</b>

Sources: 2017 Banking Institution Annual Reports

#### Botswana Building Society (BBS)

The Botswana Building Society (BBS) has historically been one of the largest mortgage lenders in the country. It currently has nine branches in Botswana, namely, three branches in Gaborone, and one in each of Lobatse, Serowe, Selibe-Phikwe, Francistown, Maun and Kasane<sup>54</sup>. BBS reports 190 000 customers, approximately 5 600 of which are mortgage holders, in its 2017-2018 annual report. Its loan portfolio is reported at approximately P3.2 billion (US\$295 million), making it the second largest home lender in Botswana. BBS currently charges an interest rate from as low as 9.00 percent for the Variable Rate Mortgage and 10.50 percent for the Floating Rate Mortgage. The maximum repayment

<sup>49</sup> World Bank (2017). Global Findex Database, downloadable data. <https://globalfindex.worldbank.org>. Accessed September 18, 2019)

<sup>50</sup> Ibid.

<sup>51</sup> Bank of Botswana (2017). Banking Supervision Annual Report, 2017. Pg. 9.

<sup>52</sup> Bank of Botswana (2017) Annual Report, 2017. Pg. 83.

<sup>53</sup> Housing Finance Information Network (2017). Downloadable data. <http://hofinet.org/countries/country.aspx?regionID=8&id=24>. (Accessed September 18, 2019).

<sup>54</sup> Bank of Botswana (2017) Annual report, 2017. Page 3.

period is 25 years for individual borrowers on both the Variable Rate Mortgage Bond and Floating Rate Mortgage.<sup>55</sup>

In August 2017, BBS shareholders resolved to give the directors the leeway to transform the Society into a company limited by shares, meaning that it would demutualise<sup>56</sup>. The conversion was completed on 26 April 2018, and the company is now named BBS Limited. In September 2018, BBS listed 487 million shares on the Botswana Stock Exchange's new Serala Over-The-Counter (OTC) board, one of the BSE's three trading platforms.<sup>57</sup> The Serala OTC board was established to allow public interest entities to experience the rigours of the listing process, register their shares, and trade them with a view to listing on the main Domestic Companies Index (DCI).

The Company also intends to apply for a banking license in terms of Section 6 of the Banking Act.<sup>58</sup> If the license is granted, the company will be the first bank in Botswana to be majority-owned and controlled by citizens of Botswana. As a building society, the company already had a strong business presence and the expansion of banking services offered is expected to increase its presence and market share in the economy.

### 5.3 Market Size and Typical Terms

When statutory banks are included, Botswana's mortgage to GDP ratio was reported at 7.5 percent 2017.<sup>59</sup> Mortgages increased by 4.8 percent to P9.2 billion (US\$855 million) in 2017, although their share in total retail lending was unchanged at 28 percent from the prior year.<sup>60</sup> According to CAHF, there are an estimated 17 500 mortgages in the country, with an average size of approximately P750 000 (US\$75 000), plus another 5 500 from BBS.<sup>61</sup>

Commercial banks are reportedly keen to extend mortgage lending and compete on loan-to-value ratios, sometimes offering more than 100 percent to provide a contribution to property transfer fees and minimise the deposit required from borrowers. For example, in 2016 FNB began offering a home loan value-add solution for first-time homeowners, called the FNB 105 Percent Mortgage Offering. The product allows FNB Home Loans to consider financing up to 100 percent of the purchase price plus an additional 5 percent of the said purchase price towards legal and administration fees.<sup>62</sup> The Bank of Botswana reports that the lowest interest rate offered by commercial banks in 2017 on mortgages was 3.50 percent, and the highest was 13 percent.<sup>63</sup>

### 5.4 Microfinance

Botswana has a vibrant microfinance sector. New regulations instituted in 2012 require non-financial institutions, individuals and companies that participate in microlending to register with the Non-Bank

<sup>55</sup> Ibid

<sup>56</sup> Ramokopelwa, K. 2018. BBS to list in 2018. 20 Apr 2018. Botswana Guardian.

<http://www.botswanaguardian.co.bw/business/item/3151-bbs-to-list-in-2018.html>. (Accessed September 18, 2019).

<sup>57</sup> Dikuelo, P. BBS lists on new BSE board. 07 Sep 2018. Mmegi Online.

<https://www.mmegi.bw/index.php?aid=77459&dir=2018/sepember/07>. (Accessed September 18, 2019).

<sup>58</sup> Botswana Building Society (2018) Annual Report, 2017-18. Pg. 2.

<sup>59</sup> Bank of Botswana (2017). Banking Supervision Annual Report, 2017. Pg. 9.

<sup>60</sup> Ibid

<sup>61</sup> CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 74.

<sup>62</sup> FNB (2018), Annual Report, 2018. Pg. 15.

<sup>63</sup> Bank of Botswana (2017). Annual Report, 2017. Pg. 54.

Financial Institutions Regulatory Authority (NBFIRA) and apply for a formal license.<sup>64</sup> There are 185 microlenders registered in the NBFIRA licensing database, but only 12 have yet to be fully issued with licenses.<sup>65</sup> Unfortunately, little data can be found on how many microfinance institutions (MFIs) are engaged in home lending. When MFI lending data is available, it rarely tracks use of funds, making it difficult to quantify the amount of home loans.

### Botswana's Letshego

One company that has made strides in recent years is Letshego Holdings Limited (Letshego). Letshego Holdings Limited ("Letshego") was incorporated in 1998, is headquartered in Gaborone and has been publicly listed on the Botswana Stock Exchange since 2002.<sup>1</sup> It has a market capitalisation of approximately US\$500 million, placing it in the top 50 listed Sub-Saharan African companies (ex-South Africa), with an agenda focused on inclusive finance. Through its 11-country presence across Southern, East and West Africa (Botswana, Ghana, Kenya, Lesotho, Mozambique, Namibia, Nigeria, Rwanda, Swaziland, Tanzania and Uganda), its subsidiaries provide consumer, microfinance and savings solutions to the financially underserved.

Letshego Namibia announced in its 2017 IPO prospectus<sup>1</sup> that it would be piloting affordable housing lending projects. Across the Letshego group, the affordable housing portfolio grew 36 percent in 2017 to US\$34 million.<sup>1</sup> While most of this is in East Africa, its commitment to grow this portfolio is an encouraging sign for the majority of households who do not have access to traditional credit from the large commercial banks. Letshego has a dedicated housing finance scheme in Botswana, which is executed in collaboration with Debswana, a major mining company. The scheme offers loans from P80 000 (US\$7 804) upwards, repayable over 10 years at an interest rate of 17 percent.<sup>1</sup> The lender reported 36 000 borrowers in Botswana in 2017.<sup>1</sup>

## 6 Housing Output

Although market information on annual new housing stock supplied is unavailable, there is some data on existing housing stock. According to the Population and Housing Census, Botswana had 550 846 housing units (both urban and rural) in 2011.<sup>66</sup> HOFINET reports 423 124 urban dwelling units in Botswana in 2017, approximately 0.2 percent of which were vacant and 2.22 percent were considered substandard.<sup>67</sup>

### 6.1 Public Sector Supply

Between 1997 and 2014, the Botswanan government reports having provided at least 20 823 new units of housing through its various subsidised housing schemes:

<sup>64</sup> Newman, C. (2012). MICROCAPITAL BRIEF: Botswana Approves Microfinance Regulations, Sets Licensing Requirements, Prohibits Taking Personal Documents. 12 April 2012. <https://www.microcapital.org/microcapital-brief-botswana-approves-microfinance-regulations-sets-licensing-requirements-prohibits-taking-personal-documents/> (Accessed September 18, 2019).

<sup>65</sup> Non-Bank Financial Institutions Regulatory Authority (no date). Micro Lenders. <https://www.nbfira.org.bw/micro-lenders>. (Accessed September 18, 2019)

<sup>66</sup> CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 74.

<sup>67</sup> HOFINET (2017). Original source is the Botswana Demographic Survey Report.

Output of Shelter Interventions by Type of Housing Project	1997-2002	2003-2009	2009-2014	Total
District Housing Units	293	1,134	176	1,603
Home Improvement	-	9,268	3,553	12,821
Turnkey Development	-	240	4,911	5,151
Poverty Alleviation			124	124
Destitute Housing		63	1,061	1,124
<b>Total</b>	<b>293</b>	<b>10,714</b>	<b>9,706</b>	<b>20,823</b>

Source: UN Habitat III Botswana National Report, Ministry of Lands and Housing, and Ministry of Local Government and Rural Development, 2014

## 6.2 Private Sector Supply

Unlike most African countries, Botswana is viewed as a mature market by property investors and developers. The lack of low-income housing is noticeable, however, as developers have concentrated on the top end of the market due to better margins, high land prices, and lack of scale. Construction costs are also high and a lack of readily available serviced land, as well as limited access to finance, have constrained housing delivery efforts. The lack of supply has therefore intensified demand for housing targeting the base of the pyramid.

According to Vantage Properties, a local real estate research and consulting firm, the overall property market has slowed in recent years due to a low interest rate environment and flat credit growth.<sup>68</sup> This trend is likely due to a broader macroeconomic factors, such as the country's relatively sluggish GDP growth, which reached a low point in 2015, when the economy contracted 1.7 percent.<sup>69</sup>

Some of the larger local developers include Premier Properties, Universal Estates, Sheldon Properties and Time Projects. The contribution of private developers to the supply of housing in Botswana is summarised by a 2013 study by University of Pretoria scholars. This concludes that the performance of private developers has been generally good, with annual turnover of those companies interviewed averaging between P5 million (US\$47 000) and P10 million (US\$98 000).<sup>70</sup>

<sup>68</sup> Vantage Properties (2018). Fact Sheet. <http://www.vantagepropertiesbw.com/wp-content/uploads/2018/06/fact-sheet.pdf> (Accessed September 17, 2019).

<sup>69</sup> World Bank (2019). The World Bank In Botswana. <https://www.worldbank.org/en/country/botswana/overview> (Accessed September 19 2019).

<sup>70</sup> CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 77, and Kachepa S, Pienar J, and Boshoff, D. (2013). Urban Housing Provision in Botswana: A Critical Analysis of Gaborone, 2nd Virtual International Conference on Advanced Research in Scientific Fields, University of Pretoria. Pg. 5.

### 6.3 Public Private Partnerships (PPPs)

The government is trying to increase Public Private Partnership (PPP) activity in the country. It has formed a PPP unit within the Ministry of Finance and Economic Development, and identified 16 projects, including the construction of 4 000 homes for teachers.<sup>71</sup> Thus far only two projects have been completed (Ombudsman and Land Tribunal Office Accommodation Project and SADC Headquarters Office Accommodation Project), both of which consisted largely of offices.<sup>72</sup>

## 7 Challenges and Opportunities

Despite several years of somewhat slow economic growth, Botswana's affordable housing market presents many viable investment opportunities for both local and foreign investors. This is due to the overall stability of the country and the high demand for housing targeting low and middle income households. In addition, finance for self-built housing offers significant prospects for growth, because this is the preferred method of building, even among the middle and higher income categories. The implementation of the National Development Plan (Vision 2036) and the Sustainable Development Goals, as well as the government's interest in pursuing PPPs, will likely encourage investment.

Affordability will continue to be one of the largest challenges facing Botswana's local housing and housing finance markets. Despite low interest rates, low or informal incomes prevent most households accessing conventional mortgage finance. Rather than focus on direct provision itself, government should explore interventions that incentivise the private sector to go down-market.

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<sup>71</sup> Adamson, K (2018). PPPs: New cost effective way. 26 March 2018. The Patriot.

<http://www.thepatriot.co.bw/business/item/5406-ppps-new-cost-effective-way.html>. (Accessed September 18, 2019).

<sup>72</sup> Ministry of Finance and Economic Development (2018).

[https://www.finance.gov.bw/index.php?option=com\\_content&view=article&id=263&catid=13&Itemid=405](https://www.finance.gov.bw/index.php?option=com_content&view=article&id=263&catid=13&Itemid=405). (Accessed September 18, 2019)