



Centre for Affordable
Housing Finance
in Africa

HOUSING INVESTMENT LANDSCAPES

LESOTHO

2020

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1 Introduction

This country report forms part of The Centre for Affordable Housing Finance’s Investor Programme which aims to reduce information asymmetries on who makes investments in the African housing sector, why they are made, and how. With the intention of identifying and championing increased investment in affordable housing, the report includes insights into and analysis of the depth and breadth of investment in Lesotho’s housing and housing finance sector. This project has collected data and highlights gaps and opportunities in the investment landscape. 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 localized construction material industry, and innovations in housing finance such as the emergence of Real Estate Investment Trusts (REITs), found to be mostly active in Southern Africa, and mortgage liquidity facilities across Africa.

The chronic lack of data on housing finance presents a key barrier to this growth. Stimulating targeted investments in the housing sector requires highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in underserved markets we can support a better policy environment and increased private sector activity in affordable housing markets. This involves segmenting and quantifying the demand side, and scoping, understanding and tracking the supply side.

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

2 Lesotho

Lesotho is a small, landlocked country, surrounded by the Republic of South Africa. It has a population of about two million, 57 percent of which lives below the poverty line.¹ The country’s HIV/AIDS rate is the second highest in the world.²

Economic growth in Lesotho averaged just 1.4 percent between 2015 and 2018, and GDP is projected to grow by 2.6 percent in 2019³. Investment in housing has been low and the need for new stock is growing. According to UN Habitat, an estimated 99 000 dwellings will need to be constructed by 2025 to meet demand, and an estimated 5 200 dwellings a year are needed to meet urban housing demand.⁴ While this number seems large, there is notable local government interest in closing the affordable housing supply gap. The CAHF yearbook reports that the Lesotho Housing and Land Development Corporation (LHLDC), plans to deliver formal housing on 300 sites in the Leribe District.

¹ CIA World Factbook (n.d). Lesotho page. https://www.cia.gov/library/publications/resources/the-world-factbook/geos/print_lt.html (Accessed 06 December 2019).

² Ibid

³ World Bank (2019). The World Bank in Lesotho. <https://www.worldbank.org/en/country/lesotho/overview> (Accessed 06 December 2019).

⁴ UN-Habitat (2015). Lesotho Housing Profile. <https://unhabitat.org/lesotho-urban-housing-profile> (Accessed 06 December 2019). Pg. 52.

Low financial inclusion is reflected by minimal investment in housing finance: only 4 percent of the population has an outstanding housing loan.⁵ Most households acquire land and build their own homes incrementally, and 70 percent of the total urban housing stock in Lesotho is provided through informal channels.⁶ The greatest use of savings is to meet living expenses. Savings for housing represent less than 5 percent.⁷

3 Profiles of Investors

Both local and foreign institutional investors are present in Lesotho. 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

Lesotho's capital markets are small. Lesotho's Central Bank first launched the country's first stock exchange, the Maseru Securities Market,⁸ in January 2016. As of 2019, however, it does not appear to have any listed companies.⁹

Lesotho's government issues debt instruments, but the longest dated maturity is 10 years. Therefore few benchmark points to construct a yield curve exist. The bond market is largely illiquid, and the secondary market is limited with minimal activity. Holders typically view securities as a form of savings and hold them to maturity.¹⁰

Lesotho was last rated in 2018 by [Fitch](#). The credit rating agency assigned a rating of B+ (this rating signals that the country is relatively risky, with a higher than average chance of [default](#)), and revised its outlook from stable to negative.¹¹

Pension Funds

Lesotho's primary pension fund, Public Officers Defined Contribution Pension Fund, was reported to have about M5.7 billion of assets under management in February 2018.¹² The Fund is also reported to only have about 5 percent of its portfolio invested domestically. Its 2018/19 financial statements

⁵ Global Findex Database (2017). Lesotho. https://globalfindex.worldbank.org/index.php/#data_sec_focus (Accessed 06 December 2019).

⁶ UN-Habitat (2015). Lesotho Housing Profile. <https://unhabitat.org/lesotho-urban-housing-profile>. Accessed 06 December 2019). Pg. 52.

⁷ Jefferis, K and Manje, L. (2014). Lesotho - Demand, Supply, Policy and Regulation, Diagnostic Report. http://finmark.org.za/wp-content/uploads/2018/09/MAP-Lesotho_Diagnostic-report_final_2014_rev.pdf (Accessed 06 December 2019). Pg. 138

⁸ Pitso, R. Lesotho launches stock exchange. 30 January 2016. Lesotho Times. <http://lestimes.com/lesotho-launches-stock-exchange/> (Accessed 06 December 2019).

⁹ Maseru Securities Market (n.d) <https://www.msm.org.ls/listed-companies> (Accessed 06 December 2019).

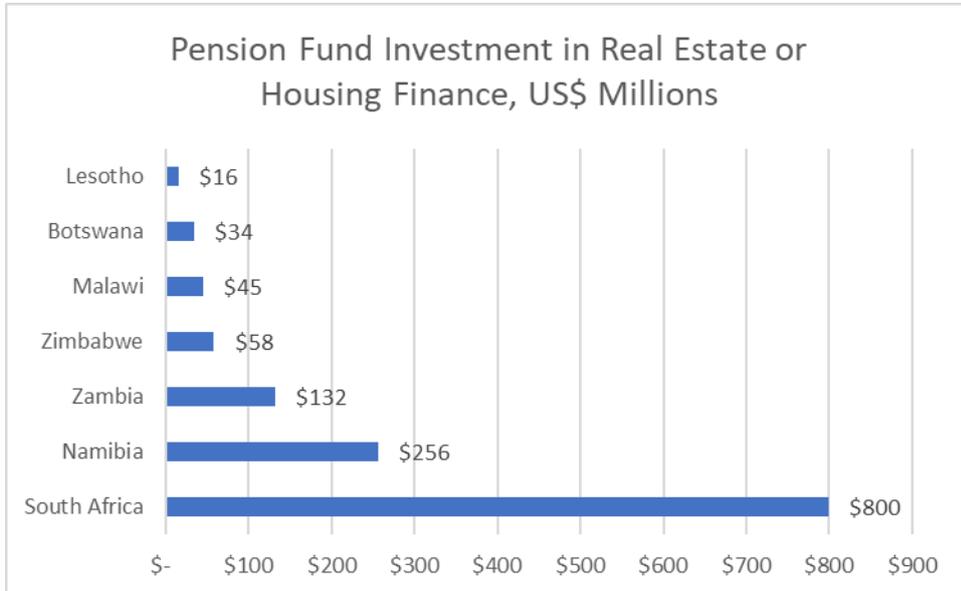
¹⁰ African Financial Markets Initiative (2019). Lesotho. <https://www.africanbondmarkets.org/en/country-profiles/southern-africa/lesotho/> (Accessed 06 December 2019).

¹¹ CBonds (2018). Fitch Ratings revised outlook on Lesotho to negative and affirmed at "B+" credit rating. August 27, 2018. <http://bit.ly/CBondsSite> (Accessed 06 December 2019).

¹² Lesotho Times (2018). We have M5.7 billion: Pension Fund 16 February 2018. <http://lestimes.com/we-have-m5-7-billion-pension-fund/> (Accessed 06 December 2019).

indicate that approximately 4 percent of its assets are invested in Lesotho property.¹³ In September 2019 the Senate passed a new Pension Fund Bill that is expected to increase local pension fund investment.¹⁴

Figure 1: Pension fund investment in real estate



Source: CAHF study data.

3.2 Government Investment

The government of Lesotho’s interventions in the housing market are largely in the form of direct provision (although mainly to civil servants), rather than as a facilitator of land, housing, and housing finance markets.

Lesotho Housing and Land Development Corporation (LHDC)

The Lesotho Housing and Land Development Corporation (LHLDC) was established in 1988. It is a parastatal agency that manages a rental portfolio and builds and sells homes, as well as serviced plots. According to CAHF’s 2018 yearbook, the LHLDC has developed four phases of a project called MASOWE, which is expected to contain up to 500 units or plots, as well as 300 sites in the Leribe District.¹⁵ Other projects developed by LHLDC include the Sigma Housing Estate and Linakotseng Housing Project.

¹³ Public Officers Defined Contribution Pension Fund (2018). 2017/18 Financial Statements. <http://bit.ly/LesothoPF> (Accessed 06 December 2019). Pg. 26.

¹⁴ Government of Lesotho (2019). Government passes pension fund bill. 27 September 2019. <http://bit.ly/LPFBill> (Accessed 06 December 2019).

¹⁵ CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 166.

3.3 Foreign Institutional Investors

DFI Investment

As one of the region's poorest countries, Lesotho has traditionally received significant aid and DFI investment. Using World Bank data, Lesotho received US\$147 million of 'net official development assistance' (ODA),¹⁶ commonly known as "aid," in 2017. This is approximately \$73.5 per capita, which compares to \$68 in Namibia, \$58 in Zambia, \$41 in Zimbabwe, \$21 in South Africa and just \$7 in Angola. Net ODA represents 5.07% of Gross National Income.¹⁷

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. Lesotho, unlike any other country covered in the study, does not appear to be the recipient of targeted DFI investment. DFI activity identified by the study consisted of World Bank facilities. The World Bank's total portfolio in Lesotho includes 10 projects, with a total commitment of US\$306.90 million, of which about \$85.28 million is disbursed.¹⁸ The most relevant investments were two Poverty Reduction programs, initiated in 2011 and 2012, with a combined value of US\$43 million, and a Social Assistance project initiated in 2016 and valued at US\$20 million. There were no DFI Investments specifically related to housing.

¹⁶ "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)." USAid website. <https://idea.usaid.gov/cd/lesotho?comparisonGroup=region>

¹⁷ Ibid

¹⁸ World Bank (2019). The World Bank in Lesotho. <https://www.worldbank.org/en/country/lesotho/overview#2> (Accessed 06 December 2019).

The African Local Currency Bond (ALCB) Fund and Lesana Lesotho

The ALCB has invested in Lesotho's housing finance sector. KfW and the German government (BMZ) established the ALCB Fund in 2012 to promote corporate local currency bond markets as a viable source of funding in Africa. The information below is from the ALCB website.

The fund focuses on three core areas of impact:

- Acting as an anchor investor and provider of technical assistance to financial service providers (including banks, MFIs, mortgage providers, leasing companies and SME lenders) and selected companies in renewable energy, housing and agriculture;
- Improving the sustainability and diversity of funding sources for target issuers to reduce risk at the level of the individual financial institution or company, while reducing systemic risk across the financial sector; and

Facilitating sustainable borrowing, long-term investment and financial-sector sustainability, thus ensuring greater economic opportunity for the fund's target beneficiaries, specifically low income households and MSMEs.

In 2017, the ALCB invested US\$2.5 million via a locally issued bond in Lesana Lesotho, a subsidiary of Select Africa that provides microfinance and incremental housing finance products to low and middle income households. The company provides incremental housing microfinance loans in cooperation with Habitat for Humanity, who offer technical advice to clients looking to build their own homes. Lesana Lesotho would like to be listed on the local stock exchange but has encountered difficulties doing so. To support Lesana in listing its bond, the ALCBF TAF is working with PwC and the Central Bank of Lesotho in an exercise to assess the competitiveness of Lesotho's corporate bond market and identify potential bottlenecks in current listing regulations.

Source: ALCB Fund website, https://www.alcbfund.com/?page_id=830

International NGO Activity

The internationally funded NGO Habitat for Humanity has been active in Lesotho since 2001. It has reportedly built a total of 1 375 units. In March 2019, the NGO published a report entitled Women's Access to Land and Housing in Lesotho.¹⁹

¹⁹ Harvest FM (2019). Habitat for Humanity Lesotho Launches the Women's Access to Land and Housing Report in Lesotho. 27 March 2019 <http://bit.ly/HFHLesotho> (Accessed 06 December 2019).

Chinese Investments

Chinese companies, both state-owned and private, are common in the 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.²⁰

Lesotho was the 11th largest recipient of Chinese investment in the region, receiving US\$56 million between 2000 and 2017.²¹ Most of the capital was used on infrastructure projects, as well as manufacturing and energy.²² None of the funds were earmarked specifically for Housing.²³

4 Investment Activity in Housing

As stated earlier, institutional investors have not directly invested in Lesotho's housing market. The one exception is the ALCB Fund, which invested US\$2.5 million via a locally issued bond in Lesana Lesotho, a subsidiary of Select Africa that provides microfinance and incremental housing finance products to low and middle income households.

Table 1: Housing investment activity

Investor Name	Investor Type	Location of Investment	Description	Amount, \$USD million	Year First Investment
ALCB Fund	DFI	Lesotho	Equity investment in Lesana Lesotho, an incremental housing microfinance company	2.50	2017

5 The Breadth and Depth of Housing and Housing Finance Products

5.1 Access to Mortgage Finance

According to the Global Findex report, 46 percent of the Lesotho population over 15 years of age had an account with a formal financial institution in 2017. This is a dramatic improvement from the previous recorded year (2014), when the percentage was just 18 percent. It is low compared to the SADC average of 50 percent.²⁴ The country's credit market is accordingly underdeveloped, with domestic credit to the private sector as a percentage of GDP at just 18.4 percent in 2018. As a point of comparison, South Africa's equivalent data point was 147.5 percent that same year.²⁵

Few Basotho have an outstanding loan to buy a home: 5 percent of the top 60 percent of income earners and 3 percent of the bottom 40 percent of income earners.²⁶ Despite 17 percent of the

²⁰ SAIS China-Africa Research Initiative (2017). Loan Data. <http://www.sais-cari.org/data> (Accessed 06 December 2019).

²¹ Ibid

²² <http://www.globaltimes.cn/content/1131385.shtml>

²³ SAIS China-Africa Research Initiative (2017). Loan Data. <http://www.sais-cari.org/data> (Accessed 06 December 2019).

²⁴ Global Findex Database (2017). Lesotho. https://globalfindex.worldbank.org/index.php/#data_sec_focus (Accessed 06 December 2019).

²⁵ World Bank (2019). Development Indicators. <https://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS> (Accessed 06 December 2019).

²⁶ Global Findex Database (2017). Lesotho. https://globalfindex.worldbank.org/index.php/#data_sec_focus (Accessed 06 December 2019).

population being salaried, most Basotho households clearly cannot afford a mortgage. This is reflected in high average mortgage sizes at Standard Lesotho Bank of US\$23 076 or M328 833.²⁷

Table 2: Outstanding housing loans and accounts with financial institutions

Country	Outstanding housing loan (% age 15+)	Account (% age 15+)
Mauritius, 2017	13%	80%
Botswana, 2014	10%	52%
Namibia, 2017	9%	81%
Mozambique, 2017	8%	42%
Zambia, 2017	8%	36%
RSA, 2017	6%	69%
Malawi, 2017	6%	34%
Lesotho, 2017	4%	46%
Zimbabwe, 2017	4%	55%
Angola, 2014	2%	29%
Madagascar, 2017	2%	18%
Comoros, 2011	NA	22%
Kingdom of Swaziland	NA	29%
Seychelles	NA	NA
SADC Average	5.7%	50.0%

Source: CAHF Study.

5.2 Key Players, Size, and Products

According to CAHF, Lesotho's housing finance market is dominated by Standard Lesotho Bank Limited (SLB), First National Bank (FNB), and Nedbank Lesotho. SLB offers home loans from M100 000 (US\$7 570.20) up to M10 million at the rate of 12.5 percent a year payable over a 20-year period. SLB has an estimated 2 100 mortgages and the average loan size is M328 833 (US\$23 076). The total amount of home loans outstanding in 2018 is M208 915.45 (US\$15 815) and this represents 6.95 percent of the outstanding loans. It also offers pension-backed loans, but these are not recorded separately from normal loans. FNB Lesotho also offers home loans at an interest rate of 11.25 percent a year. Nedbank Lesotho offers home loans to purchase property.²⁸

The banking sector is regulated by the Central Bank, and a reported approximately 400 mortgages are issued a year to borrowers who earn above M1 285 (US\$90) a month.²⁹

5.3 Microfinance

According to CAHF, 29 micro lenders are registered in Lesotho and it is estimated that an additional 50 microlenders are not registered with the central bank. Of all the microfinance institutions, only Lesana Financial Services (profiled earlier) and Letshego Financial Services offer home loan products. The average loan size given by Lesana Financial Services is M36 736.15 (US\$2 781). The loans are payable at an interest rate of 21.5 percent for housing-related loans and 45 percent for other loans.

²⁷ CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 166.

²⁸ CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 165.

²⁹ Ibid

The loan duration ranges from a year to 60 months.³⁰ The MiX market does not list any registered MFIs on its website.

6 Challenges and Opportunities

The unmet demand for housing in Lesotho presents as an investment opportunity, though various impediments to market growth exist. On the demand side, these include widespread poverty, health issues, and expensive mortgage finance. Things are a little rosier on the supply side, thanks in large part to recent legislative and policy reforms. A new Land Act was passed in 2010, which supported the establishment of a Land Administration Authority (LAA).³¹ The LAA has dramatically reduced the costs and time associated with title registration. The registering of titles, which used to take between six and 10 years, now takes 11 days, with a ninety-year lease issued in a month. In 2018, a total of 76 581 leases were issued and registered with the office of the Register of Deeds at the Land Administration Authority, a significant rise in activity.³² In addition, the Maseru Municipal Council has expressed interest in Public Private Partnerships to allocate and develop land. Private housing developers may want to pursue such an opportunity as the demand for affordable housing in the country's capital is expected to continue to grow unabated.

³⁰ Ibid

³¹ Land Administration Authority (n.d.) <https://www.laa.org.ls/about/> (Accessed 06 December 2019).

³² CAHF (2018). Housing Finance in Africa Yearbook, 9th Edition. Pg. 167.