# Contents

Background ............................................................................................................................................. 2

Executive Summary .............................................................................................................................. 3

1. Investment Climate ......................................................................................................................... 4

2. Investor Profiles ............................................................................................................................. 4

   2.1 Local Institutional Investors ...................................................................................................... 4

      Capital Markets .......................................................................................................................... 4

      Pension Funds ........................................................................................................................... 4

      Government Investment .............................................................................................................. 5

   2.2 Foreign Institutional Investors ................................................................................................. 6

      DFI Investment .......................................................................................................................... 6

3. Investment Activity in Housing ...................................................................................................... 7

   3.1 Top Performing Investment Tools ........................................................................................... 7

   3.2 Investment Portfolio ............................................................................................................... 7

4. The Breadth and Depth of Housing and Housing Finance Products .................................................. 8

   4.1 Banking Sector Overview ........................................................................................................... 8

   4.2 Access to Finance ...................................................................................................................... 8

   4.3 Mortgage Market ...................................................................................................................... 8

      The Swaziland Building Society (SBS) .................................................................................... 9

      Swazi Bank .............................................................................................................................. 9

   4.4 Housing Production ............................................................................................................... 10

      Private Sector Provision .......................................................................................................... 10

   4.4.1 Public Sector Provision ..................................................................................................... 10

5. Challenges and Opportunities .......................................................................................................... 11
Background

This country report forms part of The Centre for Affordable Housing Finance's Investor Programme which aims to reduce key information asymmetries on who, why and how investments are made in the African housing sector. 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 Swaziland’s housing and housing finance sector. The overall goal of this project is to quantify the breadth of investment activity in housing and housing finance across Africa and to establish a mechanism to track this on an ongoing basis. This project has collected data and highlights gaps and opportunities in the investment landscape. 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 as the emergence of Real Estate Investment Trusts (REITs) and mortgage liquidity facilities across Africa. However, the chronic lack of rigorous data on the housing sector financing infrastructure presents a key barrier to this growth. This is particularly true for the housing sector, as stimulating targeted investments relies on highly differentiated data that illustrates market segmentation. In providing market intelligence that makes the case for investment in under-served 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 catalyze scale interventions.

Without this data, targeted interventions become challenging and result in unresponsive housing finance packages, the high occurrence of Non-performing Loans (NPLs) and poor uptake of new residential developments.
Executive Summary

Swaziland, officially the Kingdom of Eswatini since 19 April 2018, is a small landlocked country in Southern Africa bordering South Africa and Mozambique. It has a population of 1.2 million people and a land area of just 17,364 km².

With a gross domestic product (GDP) per capita of about $3,000, Swaziland is classified as a lower middle-income country. Eswatini is closely linked to South Africa on which it depends for about 85 percent of its imports and about 60 percent of exports.¹

The country’s economy has slowed in recent years, reporting GDP growth of just 1.9 percent in 2017, due to continued drought and decreased revenue from the South African Customs Union because of strained relations with South Africa. Public spending, meanwhile, has increased, contributing to higher fiscal deficits, and mounting public debt. According to the World Bank, the current policy could result in an increase in the public debt-to-GDP ratio from 17.4 percent in 2015 to 24 percent in 2018.² Higher competition in external sugar markets will also hit the agriculture sector, further testing the macroeconomic environment.³

The extravagant lifestyle of the royals and political elite, abysmal labour standards, and resistance to demands for democratic reform, have fueled ongoing social unrest in Swaziland.⁴ This is expected to continue unabated in the short term.

Swaziland’s primary development issues include high levels of poverty and inequality. An estimated 63 percent of the population live below the poverty line and 29 percent live below the extreme poverty line. The country’s Human Development Index (HDI) ranked 148 out of 188 countries in 2015, and its GINI coefficient is a high 49.5.⁵ In addition, the country’s HIV/AIDS prevalence of 31 percent of the population is among the highest in the world and life expectancy has fallen to approximately 49 years.⁶

The country lacks sufficient or decent housing, and the housing finance market remains undeveloped. The housing deficit is estimated at 200,000 units.⁷ The country does not have a strategy specifically for housing or urban development, and investment in new housing lags behind demand by approximately nine years.⁸

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¹ World Bank (2018)
² Ibid
³ Economist Intelligence Unit (2018)
⁴ AllAfrica.com (2018). Swaziland: Swazi Royals Spend, Spend, Spend.
⁵ UNDP (2018)
⁶ World Bank (2018)
1 Investment Climate

The Swaziland Investment Promotion Authority (SIPA) is charged with designing and implementing strategies for attracting foreign investors.

The government’s official policy is to encourage foreign investment as a means to drive economic growth, but the pace of investment policy reform has been slow. In 2012, Swaziland re-launched its 2005 Investor Roadmap aimed at improving the country’s competitiveness. The roadmap recommends various regulatory reforms, but many remain unachieved.9

Incentives to invest in Swaziland include repatriation of profits, tax allowances and deductions for new enterprises, including a 10-year exemption from withholding tax on dividends and a low corporate tax rate of 10 percent for approved investment projects. New investors also enjoy duty-free import of machinery and equipment.10

Despite these incentives, public sector and royal family involvement in the economy may deter potential investors. In addition, the country’s land tenure system discourages long-term investment in real estate: the King owns most usable land “in trust for the Swazi nation,” and land cannot be bought by foreign investors. Foreigners who need significant Swazi National Land (SNL) for their enterprises must engage with the king, through the Land Management Board, to secure a long-term lease, typically for 99 years. Most rural land is owned by the King and most urban property is title deed land. For titled property, the government recognises and enforces secured interest in property and there is a reliable system of recording security interests. SNL is not titled, and lending institutions are often reluctant to use it as collateral.11

The World Bank’s 2017 Doing Business Report ranking for ease of registering property refers only to property in urban areas where there are title deeds for land; Swaziland ranks 117 out of 190 economies in this category.12

Moody’s credit rating for Swaziland was last set at B2 with a negative outlook.13

2 Investor Profiles

The investment landscape in Swaziland is small, but includes both local and foreign institutional investors. Below is a description of the two categories of investors, detailing their institutional type, sources of capital, and other parameters that define their investment models.

2.1 Local Institutional Investors

Capital Markets

Swaziland’s capital markets are shallow, with low levels of activity in the primary and secondary markets. There are only a few listed shares and government bonds with maturities from three, five and seven years on the Swaziland Stock Exchange (SSX), which is still struggling to build up sufficient market capitalisation.

All listings are included in the sole index, the SSM Index, which is unweighted. Exchange Control approval is required for foreigners wishing to invest on the stock market. Stockbrokers on the exchange are licensed by the Central Bank of Swaziland and there is no regulation of the foreign ownership of brokerage firms.

There are three listed companies in the broader property and construction industries:

10 Ibid
11 Ibid
12 World Bank, 2017
13 Tradingeconomics.com
*Swaziland Property Investment Ltd (SWAPROP) is a property investment holding company that has raised equity on the exchange. It derives its income from interest on loans with its subsidiary companies and interest on investment accounts. Wholly-owned subsidiaries linked to SWAPROP include Plaza Park Ltd, The Hub Ltd, Tincwadzi Properties Ltd, Nhlangano Mall Properties and Elwandle Properties Ltd. The subsidiary companies own their own properties and generate income from property rentals and related revenue sources. SWAPROP also has interests in legal entities which pool securities and other assets on behalf of shareholders, unitholders and beneficiaries.*

*Swazispa Holdings Ltd (Swazispa), an investment holding company, which owns the Royal Swazi Sun, the Lugogo Sun, the Ezulwini Sun and various other property assets. It is largely owned by Greystone Partners.*

*Inyatsi Construction Group Holdings, the country’s largest construction company, has issued corporate bonds on the exchange. It is predominantly a government contractor and has recently completed the construction of Institutional Housing at the KM III International Airport Housing Estate for the Swaziland National Housing Board.*

**Pension Funds**

Swaziland has three mandatory schemes: the Public Service Pension Fund (PSPF), the Members of Parliament and Designated Office Bearers Pension Fund (MOPADO) and the Swaziland National Provident Fund (SNPF). The SNPF and the PSPF are the two largest funds in Swaziland both in membership and assets.\(^{14}\)

Limited information is available about the funds’ investment portfolios, but in 2012 it was reported that the SNPF owned 15 percent of Old Mutual Swaziland, that it had permanent shares at Swaziland Building Society amounting to E13.79 million (US$977,321),\(^{15}\) as well as an ownership stake in the Swaziland Industrial Development Company worth E82.5 million (US$5.9 million).\(^{16}\)

**Government Investment**

The Swaziland Government is a key participant in the housing market. It has created three relevant institutions (referred to as Development Finance Institutions) profiled below.

**Swaziland Development and Savings Bank (Swazi Bank)**

Swaziland Development & Savings Bank, known as Swazi Bank, is a development finance institution fully owned by the State. It was established in 1965 to finance development projects, mainly smallholder farmers and low-cost housing (see [Swazi Bank](#)).

**Swaziland Development Finance Corporation (Fincorp)**

Swaziland Development Finance Corporation, commonly referred to a Fincorp, was established in 1995 with the aim of economically empowering Swazi people at a grassroots level by providing financial services. Its focus is on SME lending, and while it does not offer mortgage products, it does finance builders and contractors. It is the largest consumer lender in the country.\(^{17}\)

Fincorp is 80 percent owned by the Swazi government and 20 percent by the country’s sovereign wealth fund, called Tibiyo TakaNgwane. It receives funding from OPEC, the SNPF, Norsad (an impact investor, profiled below), and African Alliance Swaziland. According to the company’s 2015 annual report, it raised over E400 million (US$28.4 million) through local institutional investors, including Standard Bank, the Central Bank of Swaziland, Public Enterprise Guarantee Fund, SNPF, African Alliance, and Inhlonhla.\(^{18}\) The 2015 annual report

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\(^{14}\) International Organisation of Pension Supervisors (2011). [Country Profile, Swaziland](#).

\(^{15}\) All conversions at an exchange rate of $1 = E14.11, valid on December 6 2018.

\(^{16}\) Shaw, C (2012). [E57.78 million for Happy Valley shares](#). Times of Swaziland

\(^{17}\) CAHF (2017). Yearbook.

\(^{18}\) “Fincorp raises £400 million through local funding,” Swazi Observer, February 4, 2016

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also noted that Fincorp received a combined E80 million (US$5.7 million) in debt funding from OPEC Fund and the Industrial Development Corporation (IDC) of South Africa.

**Swaziland National Housing Board (SNHB)**

SNHB is a Public Enterprise set up in terms of SNHB Act No. 3 of 1988 with the core mandate of providing affordable housing for low and middle income Swazi citizens.

The SNHB aims to deliver effective housing solutions for lower to middle income earners, to develop and supply rental units at affordable local rates, and allocate plots on title deed land for development by the beneficiary. The Provision section of this report details the SNHB’s product offering and developments.

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**Investor Profile: Norsad**

Norsad Finance Ltd was established in 2011 and is a regional pure-play private credit firm offering medium-to-long term risk capital in the form of bespoke debt and mezzanine financing to mid-market companies in the SADC region. It is sector agnostic and targets investments of US$5 million to US$10 million, with tenors typically ranging from three to seven years. It also partners with other financial institutions and investors by providing complementary financing that allows them to stay within their core lending mandates and investment policy.

Norsad Finance Ltd is related to NORSAD Fund and Agency, which was established in 1990 following an agreement between the governments of the four Nordic countries and the countries of the Southern Africa Development Community (SADC). Concurrently with an incorporation of the business, the Nordic DFIs became shareholders in Norsad Finance Ltd together with 11 SADC development institutions in December 2011.

In October 2012, Norsad received US$34 million in funding from the four Nordic DFIs, including Finnfund, IFU, Norfund, and Swedfund. The investment increased Norsad’s capital base to over US$100 million.

Norsad’s website lists total exposure to Swaziland at US$7.3 million USD. It is unclear whether this is all invested in Fincorp.

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**2.2 Foreign Institutional Investors**

Foreign Institutional Investors in Swaziland’s housing market include regional institutions and international Development Finance Institutions (DFIs).

**DFI Investment**

As a small country, Swaziland has received limited funds from DFIs. Figure 1 includes DFI investments aimed at supporting the financial sector, lending to SMEs, and the broader housing market. They total approximately US$42.3 million.

<table>
<thead>
<tr>
<th>DFI Investment US$ thousands</th>
</tr>
</thead>
<tbody>
<tr>
<td>The World Bank (USA)</td>
</tr>
<tr>
<td>Norsad (Botswana)</td>
</tr>
<tr>
<td>AfDB (Tunisia)</td>
</tr>
<tr>
<td>OPEC Fund (Austria)</td>
</tr>
<tr>
<td>First Initiative (USA)</td>
</tr>
</tbody>
</table>

*Figure 1: Foreign Institutional Investment in Swaziland* Source: CAHF Research
The DFI Investment with the strongest emphasis on housing is the World Bank’s 2011 Local Government Project, which had a total project cost of $33.76 million and to which the bank committed $26.90 million in debt. The overall goal of the project was to develop institutionally-strengthened rural local governments (Tinkhundla) and urban local governments. The project consisted of three components: (1) Tinkhundla infrastructure and capacity-building support, (2) urban infrastructure grants and capacity-building support, and (3) project management and technical assistance. Sixteen percent or approximately US$4.3 million of the budget was for services and housing for the poor. The implementing agency was Swaziland’s Ministry of Housing and Urban Development.19

3 Investment Activity in Housing

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

3.1 Top Performing Investment Tools

As Figure 2 illustrates, the leading investment product for non-government investors in the broader Swazi housing market has been debt, consisting of both loans and lines of credit. That most international capital is deployed as debt is reflective of a general, global trend in DFI investing in long-term assets in emerging markets. CAHF was unable to locate equity investments by institutional investors in the housing market.

Figure 2: Leading investment products Source: CAHF Research

3.2 Investment Portfolio

Table 1 shows the country’s housing investment portfolio. It shows the size, activity or strategy, and date of various investments made by institutional investors in Swaziland’s housing and finance sectors.

<table>
<thead>
<tr>
<th>Investor Name</th>
<th>Investment Amount US$</th>
<th>Investment Activity</th>
<th>Investment Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>4,347,998</td>
<td>Line of credit to Swaziland Development Finance Corporation (Fincorp) to fund its SME lending activity</td>
<td>2018</td>
</tr>
<tr>
<td>Norsad</td>
<td>7,300,000</td>
<td>Loan to Fincorp to support its SME lending activity</td>
<td>2015</td>
</tr>
<tr>
<td>First Initiative</td>
<td>287,488</td>
<td>Technical assistance for Financial Sector Development Implementation Plan</td>
<td>2014</td>
</tr>
<tr>
<td>First Initiative</td>
<td>216,169</td>
<td>Technical assistance for strengthening supervision of deposit-taking savings and credit cooperatives programme</td>
<td>2012</td>
</tr>
<tr>
<td>The World Bank</td>
<td>26,900,000</td>
<td>Loan for local government project, including services and housing for the poor</td>
<td>2011</td>
</tr>
<tr>
<td>First Initiative</td>
<td>234,928</td>
<td>Technical assistance for strengthening supervision of the capital market institutions programme</td>
<td>2011</td>
</tr>
<tr>
<td>OPEC Fund</td>
<td>3,000,000</td>
<td>Line of credit to Fincorp to support its microfinance operations</td>
<td>2004</td>
</tr>
</tbody>
</table>

Table 1: Institutional investor activity Source: CAHF Research

4 The Breadth and Depth of Housing and Housing Finance Products

4.1 Banking Sector Overview

Swaziland’s banking sector consists of four commercial banks, three of which are subsidiaries of large South African banks (First National Bank or FNB, Nedbank and Standard Bank), and one state-owned development bank (Swazi Bank). There is one building society, Swaziland Building Society (SBS), and three credit institutions: Letshego Financial Services, First Finance (Pty) Ltd and Blue Financial Services. The South African subsidiary banks control approximately 86 percent of the market.

All the banks meet prudential and regulatory requirements for capital adequacy, liquidity, and reserve ratios. Despite slow overall economic growth in the country, the banking sector has continued to register positive growth. Total assets for the banking sector were valued at E20 billion (US$1.4 billion) in 2017 compared to E17.7 billion (US$1.25 billion) as of 31st May 2016, an increase of 5.7 percent. This improvement was fueled by positive growth in customer deposits, which translated into growth in loans and advances. Total banking sector deposits increased from E12.6 billion (US$893 million) in 2016 to E14.4 billion (US$1 billion) as of 31 May 2017. Banks tend to under-serve the lower income market due to perceived levels of higher risk.\footnote{CAHF (2017). Yearbook}

4.2 Access to Finance

The level of financial inclusion in Swaziland continues to improve, with more than 65 percent of the adult population using some type of formal financial product compared to only 50 percent in 2011. This increase is primarily driven by greater usage of formal savings in banks/savings and credit cooperatives (SACCOs) and formal remittances.

About 38 percent of adults save in formal financial institutions, 10.7 percent save through informal mechanisms, 17.9 percent save at home or with household members and 32.8 percent use no savings mechanism. Overall barriers include lack of understanding of formal financial products, physical distance from and suspicion of financial institutions, high financial illiteracy, low financial eligibility and high turnaround times and flexibility around administrative procedures. Rural residents are twice as likely to be financially excluded (32 percent) as urban residents (16 percent). This may be due more to lower incomes of rural residents than to physical barriers, which only 3 percent cite as their reason for being unbanked.\footnote{Ibid}

4.3 Mortgage Market

Typical terms of a mortgage in Swaziland include a Loan-to-Value (LTV) ratio of between 80 to 90 percent. First National Bank (FNB) requires a 40 percent deposit for a mortgage for a plot of land, while the Swaziland Building Society (SBS) allows an 80 percent LTV ratio for buying a plot, and a 95 percent LTV ratio for buying a house.\footnote{CAHF (2017). Yearbook}

The maximum loan term across all the lenders is supposedly 25 years, although Nedbank allows 20 years and FNB 30 years for house purchases. Bank Interest rates average 7.25 percent and, as of 2017, deposit interest rates stand at 2.94 percent. Between 2005 and 2017, the highest interest rate was 11.5 percent while the lowest was 5 percent. The SBS offers its mortgage at slightly below prime at 8 percent. In 2017 average mortgage size was US$40 000: clearly, most mortgages are probably targeted at upper and middle income households.\footnote{CAHF (2017). Yearbook}

\footnote{At current exchange rate of $1 = E14.11.}

\footnote{CAHF (2017). Yearbook}

\footnote{Ibid}

\footnote{CAHF (2017). Yearbook}
The credit market and mortgage market in particular are growing. According to the Central Bank, credit extended to the household sector grew by 4.7 percent to E5.7 billion (US$404 million) in 2017, notably lower than the 20.4 percent increase registered the previous year. Within the household sector, housing finance, which constitutes the largest share of household credit, recorded the highest rise of 8.3 percent. The second highest rise of 6.0 percent was in other personal (primarily unsecured) loans. 24

**The Swaziland Building Society (SBS)**

The Swaziland Building Society (SBS) is the largest mortgage provider. The SBS was established in 1962 and is a viable, self-financing development and housing finance institution. It provides loans mainly for buying vacant land and housing construction but also for residential and commercial mortgages and has more than E1.8 billion (US$127.5 million) in assets.

As Figure 3 below shows, the SBS’s loan book shows a positive upwards trajectory the past three years.

![Swaziland Building Society Credit Book US$](image)

*Figure 3: SBS loan book 2015 - 2017 Source: Swaziland Building Society Annual Reports*

SBS has an innovative program whereby it lends to residents of informal settlements through savings groups. The scheme involves providing loans to buy small plots and for house improvements. It has less onerous income eligibility criteria than mortgages and provides a starter property for incremental building. Loans are partly guaranteed by the state. Loan uptake has been modest, however, due to a reluctance to use plots as collateral among poorer households, reluctance to be taxed, general risk aversion by the SBS to lend more, and insufficient targeted marketing.

The Swaziland National Housing Board (SNHB), apart from being a developer and owner of housing, also provides housing finance through the SBS as well as developing land for sale.

**Swazi Bank**

Swazi Bank provides general commercial banking services with a particular focus on business and development finance. The bank has historically obtained interest-free deposits from the government, which has enabled it to serve lower income households by providing credit at lower than average market interest rates. Under the Civil Servants Housing Scheme, urban public servants can borrow up to E400 000 (US$28 349) while rural public servants can borrow up to E200 000 (US$14 174). A variety of other mortgage products are also available. Swazi Bank offers a rural housing loan, mortgaged either by a freehold property, or secured with the borrower’s pension withdrawal benefits.

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4.4 Housing Production

Swaziland’s housing deficit is estimated at 20,000 units. This is considerable for a country with a population of just 1.3 million people. The country is not keeping up with demand for new housing, with investment lagging demand by approximately nine years.

Private Sector Provision

Most housing in Swaziland is self-built, with production of informal units predominant among low income households in urban centers. Households source funds from social support networks (family and friends), moneylenders and other finance sources such as business income and rental revenue.

The private sector’s provision of housing appears to be increasing. The total number of building plans approved, which is a good leading indicator on construction activity, depicted a positive trend, rising by 5.5 percent from 728 units in 2013 to 768 units in 2014. Residential building plans approved increased significantly from 519 units in 2013 to 614 units in 2014, showing potential within the sector.

4.4.1 Public Sector Provision

The government provides housing through the Swaziland National Housing Board (SNHB), which was established in 1988 to provide affordable housing and end-user finance. Current and pipeline developments, however, suggest that the SNHB primarily caters for middle to higher income earners.

To date, it has provided nearly a thousand rental units at affordable rates within urban areas. The SNHB has also provided numerous plots on title deed land for development by Swazi citizens, and sold homes in newly developed townships (460 units).

As of August 2018, its website lists three projects with homes or plots for sale. All the projects are fully serviced. See Table 2.

<table>
<thead>
<tr>
<th>Project Name and Location</th>
<th>Plots Size</th>
<th>Number of Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mabuya Township, situated within Ngwenya Town</td>
<td>average size of 552m²</td>
<td>98 residential plots</td>
</tr>
<tr>
<td>Woodlands Extension 2</td>
<td>Between 759 and 3 777m²</td>
<td>296 residential plots, some with 2-3 bedroom houses</td>
</tr>
<tr>
<td>Nkhanini Township in Nhlangano</td>
<td>Between 361m² and 1 150m²</td>
<td>429 plots, selling from E79 360 (US$5 624)</td>
</tr>
</tbody>
</table>

Table 2: Swaziland Housing Board projects Source: SNHB website

The SNHB has also been tasked with providing housing for civil servants. The scheme, known as the Institutional Housing Project, is aiming to deliver 600 units in two phases. Reports that the project would cost the government US$68 million surfaced in 2014. Government-guaranteed loans from the Public Service Pension Fund and the Swaziland Provident Fund were reported as potential sources of finance.

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28 SNBH website (n.d.)
29 Ibid.
5 Challenges and Opportunities

The unmet demand for housing in Swaziland presents itself as an investment opportunity, though the country’s problematic business environment makes it difficult to execute transactions. Macroeconomic instability is not expected to subside in the near future. Swaziland will need to institute significant reforms in its policy, legal and regulatory framework – especially on land ownership rights – to attract new investments and foreign direct investment in the housing sector.