

COMMENTARY ↘

I A Mixed Economic Picture in Q2

Economic developments in the second quarter of 2015 provide a mixed picture. Some of the troubling developments evident in the first quarter, particularly those related to diamonds and other mineral exports, intensified. But this was to an extent offset by positive data releases, which show some areas of strength in the economy.

GDP data for the year to March 2015 showed a small increase in annual economic growth, to 4.6%, contrary to some perceptions of a slowing economy. It was particularly striking that overall growth increased despite continued problems and slower growth in the mining sector. Although economic sentiments have been generally negative since the beginning of 2015, the non-mining private sector showed higher growth, at 5.0%, for the second quarter running. These results suggest that some sectors of the economy at least, continue to perform reasonably well. However, the strong growth figures recorded in services sectors such as trade and financial services are at odds with reports from major firms in those sectors - which refer to tough business conditions and limited growth, raising doubts about the reliability of some of the GDP data.

As in the first quarter, the main drag on the economy is the large - and very important - diamond sector. The weakness in the market for rough diamonds seen in late 2014 and early 2015 has persisted throughout Q2, as has the squeeze on diamond cutters and polishers. Although trade figures for the second quarter are not yet available (only Q1 data is complete), indications are that sales and exports of both rough and polished diamonds were poor. Across the whole of De Beers - where Botswana provides the largest share of diamonds - rough diamond sales fell by 26%, by volume, in the first half of 2015 as compared to the previous year. The state-owned Okavango Diamond Company (ODC) also suffered from a sharp fall in rough diamond sales in the first half of 2015. This is starting to have an impact on producers, as mining output is cut back to reflect weak demand. Production at Debswana fell 6 percent in January - June, and this will inevitably have an impact on economic growth figures in due course.

There are a number of reasons for these problems, including a softening of demand growth in the main jewellery consumer markets, and liquidity constraints in the diamond financing chain. In contrast to many other commodities, rough diamond prices have been maintained at high levels as a deliberate strategy by De Beers. This

in this issue ...

COMMENTARY	1
KEY ECONOMIC VARIABLES	3
NEWS HIGHLIGHTS	6
MACROECONOMIC DATA	11
SPECIAL FEATURE:	
HOUSING FINANCE IN BOTSWANA	12

COMMENTARY

has inevitably compressed the margins of cutters and polishers, with the pressure now being transferred to the rough diamond market through reduced purchases. If sustained, lower diamond sales and production will not just affect economic growth, but will also have budgetary implications, as diamonds are still the largest single source of revenue for the government. Lower revenues could push the budget into deficit (in contrast to the projected surplus for 2015/2016), and lead to lower expenditure in the next fiscal year.

Diamonds are not the only commodity to have had a poor first half of 2015, and several of Botswana's other mining companies – producing copper, nickel and gold - have also found the going tough. At the annual Botswana Resources Conference held in June, the mood was sombre, with little discussion of new mining investments, although there was some confidence that the markets would eventually recover and that it was important to keep prospecting in order to be well placed when they did. One casualty of low copper prices was the Discovery Metals Boseto mine, closed after the company declared bankruptcy earlier this year. Fortunately, a buyer has been found – Khoemacau Mining, the owner of a neighbouring mining concession – which should help to rationalise capacity and ensure that the existing and new mines are well placed to benefit from an eventual recovery.

A further positive development during the quarter has been the easing of liquidity conditions in the banking sector, which had led to some strains and restrictions on new credit

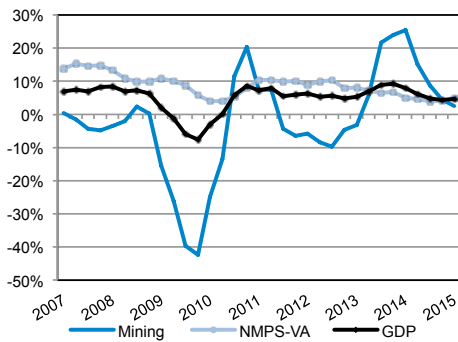
towards the end of 2014 and in early 2015. The reduction of the reserve requirement by the BoB, and inflows of pension fund cash from offshore as part of asset management restructuring arrangements, both contributed. Although the deposit base of the banking system is still volatile, which creates uncertainty, there is nevertheless scope for an easing of credit conditions.

Finally, there are some positive developments for the tourism and broader services sector. The news that Ethiopian Airlines has started direct flights from Addis Ababa to Gaborone marks a significant expansion of air connectivity, which should benefit both tourism and business services. The flight continues to Cape Town, but unfortunately cannot take passengers there from Gaborone, despite being granted fifth freedom rights by the Government of Botswana, because of restrictions imposed by South Africa. For Botswana to benefit more fully from these additional flights, the Government of Botswana needs to take this up with that of South Africa.

The Bank of Botswana released revised and updated data on international trade in services, including tourism – the inaccuracy of the previous data is something that we had raised concerns about in previous issues of this Review. The new data shows that services exports have performed well in recent years, and provided 18% of total exports in 2014. About two-thirds of this comes from tourism, which confirms its position as the country's second largest export, after diamonds.

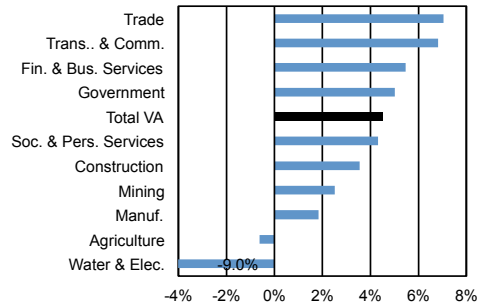
KEY ECONOMIC VARIABLES

Annual GDP Growth



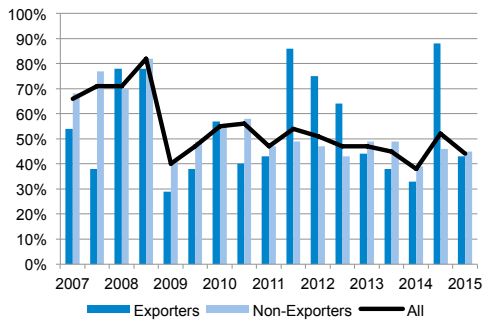
During the year to March 2015, Botswana's GDP grew by 4.6%, up from 4.4% growth in 2014. The increase was largely driven by the 5.0% growth realised in the non-mining private sector (NMPS) during the year to March. Mining sector growth continued its downward trajectory, slowing from a recent peak of 23.9% during 2013 to 2.5% during the 4 quarters to March 2015.

Sector GDP Growth, 2014



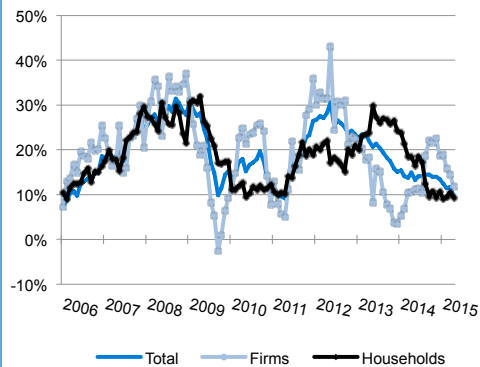
The services sectors were the fastest growing during the year to March 2015. The Trade, Transport & Communications and Finance & Business services sectors were the top three sectors in terms of growth, all growing by more than 5.0% (7.0%, 6.8% and 5.5%, respectively). Agriculture and the utilities sectors were the only two to realise negative annual growth.

Percent Of Firms Rating Current Business Conditions Satisfactory



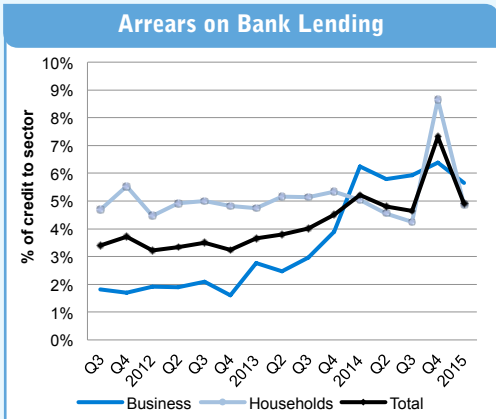
The Bank of Botswana's H1 2015 Business Expectations Survey (BES) showed that overall business confidence deteriorated to 44%, from 52% in H2 2014. The survey revealed a steep decline in confidence amongst local exporters, 43% of whom considered current business conditions as satisfactory, compared to 88% in H2 2014. However, confidence amongst firms serving the domestic market picked up, which is consistent with the improved growth performance over this period.

Annual Credit Growth

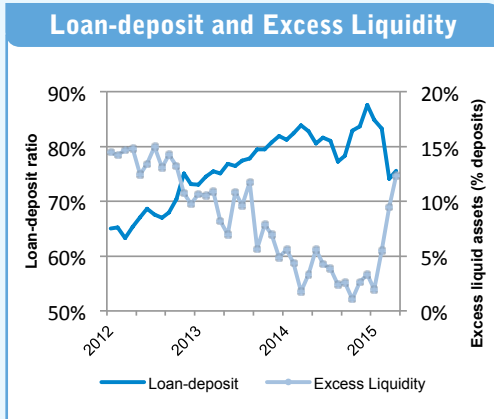


Annualised bank credit growth slowed from 12.4% in January 2015 to 9.8% in April 2015, the lowest growth rate in four years. The decline was mostly driven by a slowdown in the growth of credit to firms, which fell from 18.9% in January 2015 to 11.8% in April. Conversely, the growth rate of credit to households increased slightly from 9.0% in January to 9.3% in April. The sluggish credit growth may be attributable in part to liquidity constraints in the banking sector.

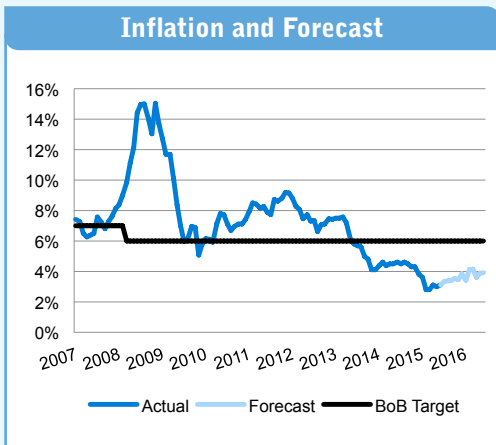
KEY ECONOMIC VARIABLES ↘



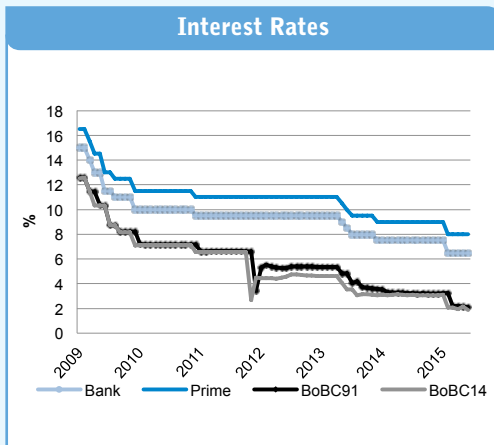
Total arrears as a proportion of outstanding bank credit decreased from 7.3% at the end of 2014 to 4.9% at the end of Q1 2015. Arrears on lending to both households and firms declined from 8.7% and 6.4% to 4.9% and 5.6% from the end of 2014 to the end of Q1 2015, respectively. This marks a reversion to a more "normal" level of bank arrears after the apparent spike in December 2014.



Bank liquidity improved significantly during the first half of the year. This reflected the reduction in the required reserve ratio by BoB early in the year, and an inflow of deposits. The latter followed changes in asset management arrangements by the BPOPF (the largest pension fund), which resulted in the repatriation of some assets previously held offshore. The result was that the loan-deposit ratio fell from 88% in December 2014 to 76% in April 2015, and surplus liquid assets increased from 3.4% to 12.4% of deposits over the same period. However, the inflow of deposits from the BPOPF may prove to be temporary.

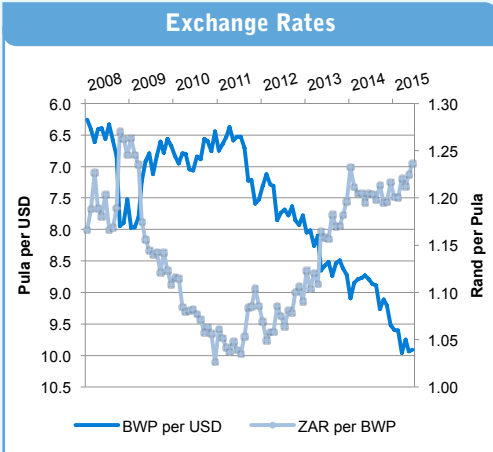


Headline inflation slightly increased during Q2 2015, from 2.8% in March to 3.1% in June. This slight uptick is mainly to the increase in insurance premiums and water tariffs during the quarter. We anticipate inflation to increase marginally during the second half of this year, but to remain below the mid-point of the BoB objective range of 3%-6%.

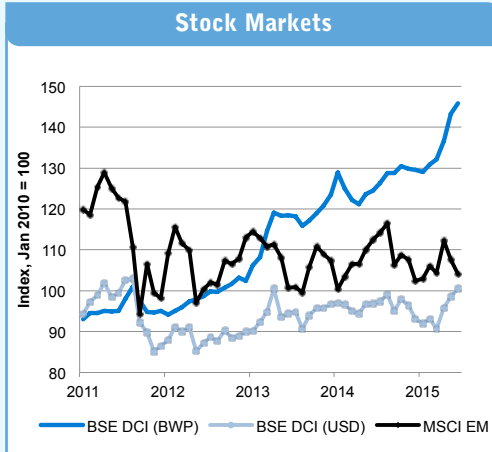


Interest rates have been fairly stable during Q2. During the BoB's Monetary Policy Committee meeting held in June, the Bank Rate was maintained at 6.5%. This was informed by the positive medium term inflation outlook. There was a marginal decline in BoBC rates. Government bond yields also remained soft, with a new 25 year bond, issued in June, offering a yield of 6.5%.

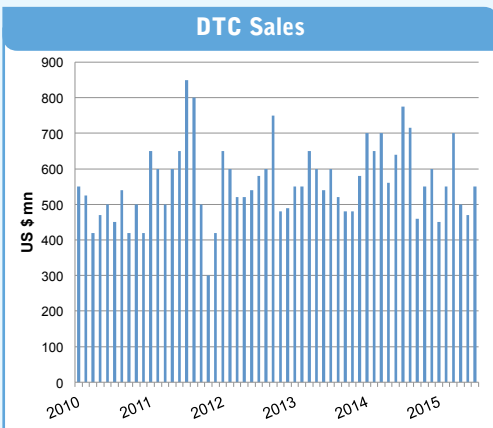
KEY ECONOMIC VARIABLES ↘



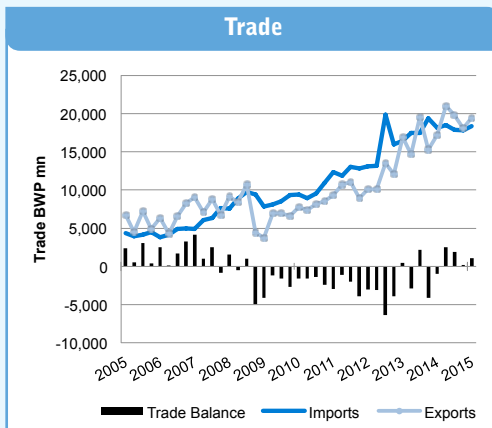
Interestingly, the Pula appreciated against the both South African Rand (ZAR) and US dollar (USD) during Q2 2015, by 1.3% and 0.5% respectively. However, this was countered by depreciation against the GB pound and the Euro. This pattern reflects sharp changes in the exchange rates between the major (SDR) currencies during Q2.



The BSE DCI gained a substantial 10.3% and 10.8% in Q2 2015, in Pula and USD terms, respectively. This was an improvement on the 2.0% gain and 2.5% loss realised in Q1 2015 for the respective indices. Consequently, the BSE DCI outperformed the MSCI Emerging Markets index, which gained 1.4% during Q2.



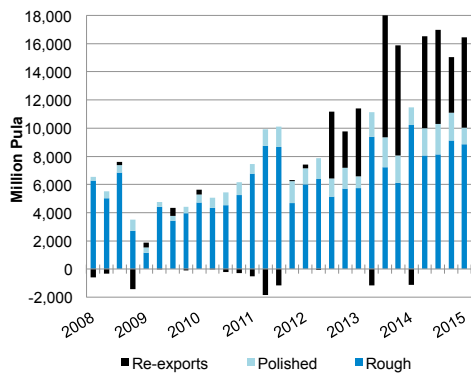
During Q2 2015, De Beers had three sights with a total sales value of US \$1,520 million. This was a decline from sales of US \$1,900 million realised in the same quarter last year. Owing to the low prices of polished diamonds and De Beers' policy of maintaining high prices for rough diamonds, the sights during this quarter have been characterized by substantial refusals and deferrals of boxes.



In the first quarter of 2015, Botswana realized a trade surplus for the fourth consecutive quarter. Botswana's trade balance increased from P222 million in Q4 2014 to P1,109 million in Q1 2015. This was attributable to the larger increase in exports (7.6%) than imports (2.7%).

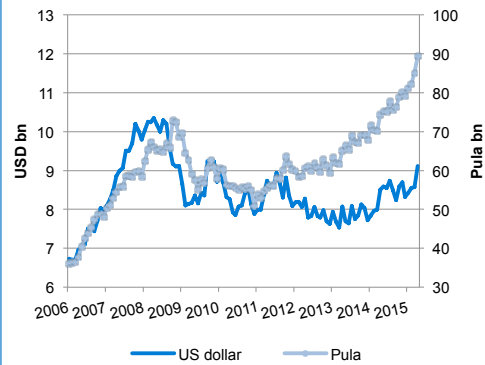
KEY ECONOMIC VARIABLES ↘

Diamond Exports



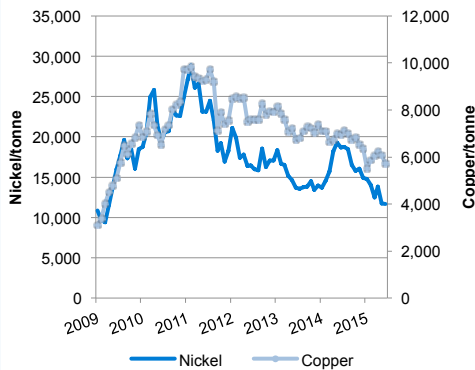
Overall diamond exports increased in Q1 2015, to USD1.6 billion. This was driven by a large increase in diamond re-exports (as a result of aggregation of diamonds from South Africa, Canada and Namibia with Botswana diamonds). Exports of Botswana-sourced rough diamonds fell during Q1, and there was a sharp fall in polished exports, reflecting difficulties in the local cutting and polishing industry.

Foreign Exchange Reserves



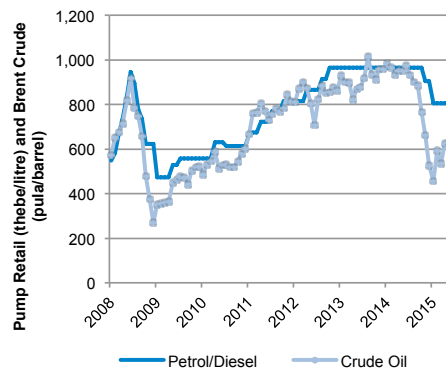
In the first quarter of 2015, foreign exchange reserves increased by 7.7% in Pula terms to P85.2 billion and 3.0% in USD terms to US\$8.57 billion. Since the 2008/9 global financial crisis, foreign reserves in USD term have been below their peak of over \$10 billion. Nevertheless, the recent period of increasing reserves in USD and SDR terms reflects continued balance of payments surpluses.

Copper & Nickel Prices



Commodity prices continued to fall during the first half of 2015. During Q2 2015, copper and nickel prices fell by 5.5% and 6.3%, respectively. The continued fall in copper prices contributed to the closure of African Copper's Thakadu mine in May 2015.

Fuel Prices



International fuel prices have rebounded to some extent during the first half of 2015. The spot price of Brent crude increased by 9.1% and 13.7% in USD and Pula terms, respectively, during H1 2015. However, local retail prices, which are regulated, still have a comfortable margin over international prices and have not been increased during the period.

NEWS HIGHLIGHTS 

3rd April	Govt. flexes muscle on local procurement. (Mmegi)	Government has directed all central government departments, local authorities and parastatals to give priority to procuring goods and services from locally based manufacturers, service providers and agricultural producers, as long as they are competitively priced and meet quality requirements.
6th April	BTCL partners with Vodafone to enhance competitiveness. (Sunday Standard)	Botswana Telecommunication Corporation Limited (BTCL) has partnered with Vodafone to boost its strategic plan, which is premised on fixed and mobile convergence, with a view to enhancing BTCL's market share in Botswana.
8th April	Electricity tariffs hiked. (Mmegi)	Botswana Power Corporation (BPC) increased electricity tariffs, effective April. The increases are 7.5-10 percent for residential consumers and small businesses, and 17.5 percent for medium and large businesses.
9th April	Mauritian financial scandal shakes Bramer Life. (Mmegi)	The insurance company Bramer Life was rocked by a financial scandal at its Mauritian parent company, resulting in the Non-Banking Financial Institutions Regulatory Authority (NBIFRA) placing Bramer Life under statutory management.
9th April	Mmamabula project acquisition gets nod. (Mmegi)	The Competition Authority (CA) has approved the acquisition of 74% shares in Jindal BVI Ltd by Glendal Trading of South Africa. Jindal will continue to operate and manage the project. The aim of the transaction is to penetrate the South African market for Botswana export coal.
10th April	BPC's Lesedi project liquidated. (Mmegi)	BPC has liquidated its renewable energy subsidiary, BPC Lesedi, and recalled the franchising business model for review, after it failed to generate profits and sustain itself.
10th April	Barclays raises P500 million from bond market. (Mmegi)	In a bid to meet lending needs and regulatory liquidity requirements amidst tight liquidity in the industry, Barclays Bank Botswana raised an additional P250 million from a P2 billion Medium Term Note (MTN) floated last year. This therefore means a total of P500 million has been raised from the MTN.
10th April	Debswana to cap output at 26 million carats. (Mmegi)	Debswana will in the short to medium term reduce production and match it with demand for rough diamonds. The diamond producer has decided to cap output at 26 million carats per annum.
12th April	BMC troubled by bulging debt and cash flow problems. (Sunday Standard)	Botswana Meat Commission (BMC)'s delayed payments to farmers is evidence of the firm's increasing debt. BMC owes the government, farmers and various commercial banks about P1 billion.
12th April	Debswana allays job loss fears as Letlhakane pit matures. (Sunday Standard)	Fears of jobs losses at the maturing Letlhakane mine were put to rest when Managing Director, Balisi Bonyongo, asserted that some of the employees from the Letlhakane mine would be absorbed by the Damtshaa mine.

NEWS HIGHLIGHTS 

17th April	beMobile seeks to rise against competitors. (Mmegi)	Following the partnership between BTCL and Vodafone, beMobile intends to increase its market share amidst tight competition from Mascom Wireless and Orange Botswana.
19th April	Shumba Coal to raise P27.5 million for new power station. (Sunday Standard)	Shumba Coal plans to raise P27.5 million from the Botswana Stock Exchange and the Stock Exchange of Mauritius to support development of a power station and coal mine.
19th April	Sight holders play catch-up as De Beers modernizes trading. (Sunday Standard)	De Beers plans to introduce online trading with strict terms and conditions for its sight holders, with the view to filtering-out firms that are unwilling to comply with the requirement of a transparent accounting system.
20th April	Lucara recovers a 342-Ct. diamond. (Diamonds.net)	Lucara Diamond Corporation recovered a 341.90 carat diamond from its Karowe mine.
21st April	BDC divest from Asphalt. (Mmegi)	The Botswana Development Corporation (BDC) has put its 48% stake in Asphalt Botswana up for sale as part of its divestment strategy.
21st April	Local cooking oil penetrates market. (Mmegi)	Arona Sunflower Oil managed to secure distribution deals with major local retailers such as Woolworths and Choppies for its Botswana Bureau of Standards (BOBS) certified produce.
24th April	Prime property rentals sink to ten-year low. (Mmegi)	According to the Knight Frank Africa 2015 report, the supply of office space in Gaborone exceeds market demand, and as such rents will remain under pressure over the medium term, as demand is expected to remain at the prevailing level.
26th April	Debswana production declines in Q1:2015. (Sunday Standard)	Anglo American revealed that Debswana's production declined by 2%, to 5.6 million carats, in the first quarter of 2015. The decline was largely attributable to lower grade diamonds recovered at Orapa mine.
29th April	Palapye abattoir to open soon. (Mmegi)	The Jago Beef Abattoir, a wholly owned citizen company, is earmarked to officially open in July. The privately owned abattoir meets the requisite European market standards.
29th April	Stanbic Bank launches Instant Money cellphone banking. (Mmegi)	Stanbic Bank Botswana recently launched 'Instant Money', a card-less person-to-person money transfer product that allows banking users to send funds to anyone anywhere in the country.
8th May	Another copper mine shuts down. (Mmegi)	African Copper announced the closure of its Thakadu mine. The mine is the second to close in 2015 following the closure of Discovery Metal's Boseto mine in Q1.
8th May	Botswana improves in tourism competitiveness. (Mmegi)	The Travel and Tourism Competitiveness Report of 2015 ranked Botswana 88th out of 141 countries, which is six places better than last year's ranking. However, Botswana's overall score declined from 3.7 (out of 5) in 2013 to 3.42 (out of 7) in 2014.

NEWS HIGHLIGHTS 

12th May	Choppies to raise P473 million in JSE listing. (Mmegi)	Choppies Enterprises' secondary listing on the Johannesburg Stock Exchange (JSE) will raise funds to pay down its debt as well as finance the company's expansion into the region.
20th May	Bank of Botswana shuts down Kingdom Bank. (Mmegi)	A High Court order granted the closure of Kingdom Bank Africa Limited (KBAL) after it was found to be insolvent after a forensic audit.
21st May	Government has 9500 vacancies. (Mmegi)	The Director of the Department of Public Service Management (DPSM), Ruth Maphorisa, stated that her department continues to encounter difficulties in filling thousands of posts, some of which have been vacant for years.
21st May	BOCCIM changes name to 'Business Botswana'. (Mmegi)	Botswana Confederation of Commerce Industry and Manpower (BOCCIM) changed its name to Business Botswana, aligning it to its mandate and to establish it as an apex body that is more representative of the private sector.
22th May	Government suspends royalties for copper miners. (Mmegi)	Government has deferred royalty payments by struggling copper miners for a year in an effort to curb losses in the industry.
24th May	Botswana would be 'worst impacted' by price shocks. (Sunday Standard)	A World Bank commodity price shock simulation shows that Botswana will emerge among "worst impacted" Sub-Saharan African countries this year.
26th May	Liquidity squeeze halves Bank of Botswana's interest expenses. (Mmegi)	Due to liquidity constraints, commercial banks divested from BoBCs in 2014. Consequently, the Central Bank's interest expenses were cut by nearly 50%.
29th May	BoB rejects Russian bank licence application. (Mmegi)	Bank of Botswana Head of Communications, Andrew Sesinyi, confirmed that the central bank had granted a conditional approval to Alvinor Botswana, but the application was since rejected upon further vetting this year.
29th May	Botswana's Okavango diamond sales fall 20%. (Mining Weekly)	Okavango Diamond Company (ODC) sold 1.02 million carats worth \$193 million in the 5 months to May, 20% less than the same year-ago period due to a weaker market and lower output.
1st June	National Development Bank (NDB) posts P87 million loss. (Mmegi)	The National Development Bank (NDB) recorded a loss of P86.4 million on the back of higher impairment charges.
2nd June	Milk Afric launches P120 million dairy project. (Mmegi)	Milk Afric launched a P120 million dairy project that is expected produce 20,000 litres per day and plug the country's milk deficit gap.
5th June	BPC to axe 187 jobs. (Mmegi)	Consequent to the current BPC restructuring exercise, 187 employees will be retrenched.

NEWS HIGHLIGHTS 

5th June	BPOPF moves to acquire Bramer Life. (Mmegi)	A private equity fund recently set up by the Botswana Public Officers Pension Fund (BPOPF) is reportedly the lead investor in a consortium eyeing to take over the troubled insurance firm, Bramer Life.
8th June	Doubts over Trans-Kalahari. (Southern Times)	The envisaged multi-billion dollar railway line connecting Botswana to Namibia's Atlantic coast hangs in the balance as the relevant authorities ponder its viability. The project was mainly meant to unlock the value of coal mining in Botswana and power generation in the SADC region.
12th June	Sese power plant to cost P15 billion. (Mmegi)	African Energy and First Quantum Minerals (FQM) will invest \$1.5 billion (P15 billion) to develop the Sese Integrated Energy Project. The project will comprise a 600MW power station and a 2.5 million tonne per annum coal mine.
15th June	Shortage of accountants frustrates BICA. (Mmegi)	Botswana Institute of Chartered Accountants (BICA) President, Frederic Els, stated that there is a dire need for more fully qualified Accountants in Botswana.
18th June	BMC temporarily shuts down Maun abattoir. (Sunday Standard)	Botswana Meat Commission's Maun abattoir is expected to close business temporarily for renovations that will improve its efficiency.
19th June	Sefalana expands manufacturing to support retail business. (Mmegi)	Sefalana Holdings Finance Director, Mohamed Osman, stated that the company is pursuing efficiency gains by seeking to vertically integrate their retailing business by getting involved in manufacturing.
19th June	Boseto mine takeover gets creditors' nod. (Mmegi)	Creditors of Discovery Copper Botswana have accepted an USD34.5m (P343 million) bid from Cupric Canyon to take over the mine following a provisional liquidation early this year.
19th June	Formation of Special Economic Zones gathers pace. (Mmegi)	The Minister of Trade and Industry is set to introduce the Special Economic Zones (SEZs) Bill to Parliament. The bill will establish the Special Economic Zone Authority (SEZA) which will be responsible for creating SEZs.
25th June	Property returns halve on softer market. (Mmegi)	The IPD Annual Property Consultative Index of June 2015 showed that total returns in the investment property sector almost halved to 11.5% in 2014 from 21.5% in 2013 on the back of a weaker market.
26th June	BMC raises prices to boost throughput. (Mmegi)	BMC adjusted purchase prices for higher grade beef in a bid to increase sales to the lucrative European market. The price adjustments are also meant to increase participation of all farmers including the supply from private feedlots.
28th June	Khama declares drought. (Daily News)	President Khama declared a drought following the findings of the Drought and Household Food Security Outlook conducted from March to April. The results indicated a significant decline in rainfall distribution coupled with scorching heat waves.
29th June	Government converts BCL debt into equity. (Sunday Standard)	As at the end of the 2013/14 year financial year, BCL owed government about P3 billion, of which P1 billion has since been paid in cash and the balance converted to into equity.

MACROECONOMIC DATA 

Key Economic Data									
	unit	2012	2013	2014	2014 Q2	2014 Q3	2014 Q4	2015 Q1	2015 Q2
Annual Economic Growth									
GDP	%	4.8	9.3	4.4	6.1	4.8	4.4	4.6	..
Mining	%	-4.6	23.9	4.5	15.2	8.7	4.5	2.5	..
Non-mining private sector	%	8.0	6.8	4.1	4.6	3.9	4.1	5.0	..
GDP current prices	P mn	112,705	125,810	141,942	36,646	34,974	36,892	35,856	..
GDP 2006 prices	P mn	75,786	82,851	86,514	21,341	21,652	22,365	22,068	..
Money & Prices									
Inflation	%	7.4	4.1	3.8	4.6	4.5	3.8	2.8	3.1
Prime lending rate	%	11.0	9.0	9.0	9.0	9.0	9.0	8.0	8.0
BoBC 14-day	%	4.6	3.1	3.1	3.1	3.1	3.1	2.1	1.9
Trade & Balance of Payments									
Exports - total goods	P mn	45,719	66,392	76,038	21,041	19,769	18,051	19,424	..
Exports - diamonds	P mn	36,143	55,367	65,327	18,266	16,967	15,054	16,463	..
Imports - total goods	P mn	62,112	70,725	72,383	18,511	17,885	17,829	18,315	..
Balance of visible trade	P mn	-16,393	-4,333	3,656	2,530	1,884	222	1,109	..
Balance of payments	P mn	-862	1,340	11,404	4 765	1 082	2 701	..	..
Foreign Exchange									
Exchange rate BWP per USD	end	7.776	8.718	9.515	8.787	9.259	9.515	9.960	9.911
Exchange rate ZAR per BWP	end	1.090	1.196	1.217	1.205	1.214	1.217	1.221	1.237
FX reserves	\$ mn	7,628	7,726	8,323	8,547	8,240	8,323	8,571	..
FX reserves	P mn	59,317	67,772	79,111	75,174	76,295	79,111	85,194	..
Financial Sector									
Deposits in banks	P mn	47,216	48,512	53,231	52,304	56,328	51,492	61,637	..
Bank credit	P mn	34,555	39,763	45,116	42,694	44,138	45,116	45,694	..
BSE index		7,510.2	9,053.4	9,501.6	9,133.9	9,440.0	9,501.6	9,693.9	10,690.1
Business Indicators									
Diamond production (a)	'000 cts	20,619	23,134	24,658	6,364	6,321	6,103	5,729	6,018
Copper production	tonnes	57,916	49,448	46,721	12,033	12,453	12,969	9,653	..
Nickel production	tonnes	17,942	22,848	14,958	4,134	2,810	5,299	5,169	..
Business confidence index		47%	45%	52%	..	52%	..	44%	..
No. of companies formed		16,561	14,190	..	3,989	4,682	4,013	5,157	4,904
Electricity consumption	GWh	3,703	3,502	..	1,007	1,036	1,013	970	..
Crude oil (Brent)	\$/bar	110.80	109.95	55.27	111.03	94.67	55.27	53.69	60.31
Employment (formal)									
Government		131,033	130,175	..	..	..	..	..	..
Parastatals		17,484	18,838	..	..	..	..	..	..
Private sector		188,531	189,894	..	..	..	..	..	..
Total		337,048	338,907	..	..	..	..	..	..
Govt Budget									
		2013/14	2014/15 Revised	2015/16 Budget					
Revenues	P mn	48,951	51,544	55,382					
Spending	P mn	41,730	51,263	54,153					
Balance	P mn	7,222	281	1,229					
Public debt & guarantees	P mn	30,769	32,064	31,931					
Govt deposits at BoB	P mn	31,745	41,680	..					
GDP	P mn	130,457	144,367	155,735					
Revenues	%GDP	37.5%	35.7%	35.6%					
Spending	%GDP	32.0%	35.5%	34.8%					
Balance	%GDP	5.5%	0.2%	0.8%					
Public debt & guarantees	%GDP	23.6%	22.2%	20.5%					
Govt deposits at BoB	%GDP	24.3%	28.9%	..					

SPECIAL FEATURE ↘

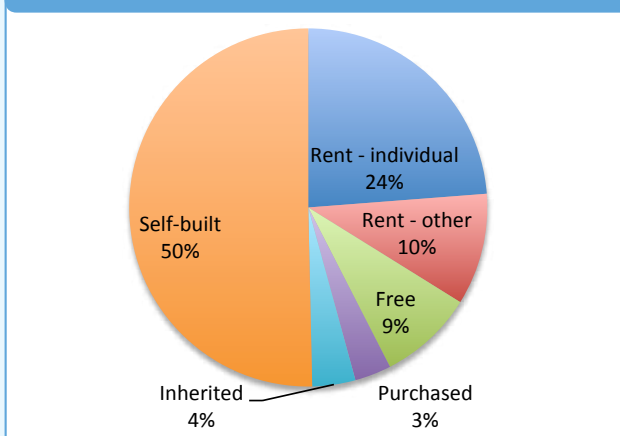
Housing Finance in Botswana

For many people, the acquisition of a house – through purchase or construction - is the largest financial investment they will ever make. Because of this, it is often difficult to finance a housing asset out of income. The availability of housing finance – typically through mortgages or other types of loans – is therefore an essential part of a well-functioning economy. In Botswana, concerns about the affordability of housing, whether for purchase or rental, have become increasingly acute. In this note, we explore the availability of housing finance in the country.

Housing Ownership

According to the 2009/10 Botswana Core Welfare Indicators Survey (BCWIS) and the 2011 Population and Housing Census (PHC), there are approximately 550,000 households in Botswana. Some two-thirds of households (66%) own their own houses; however, rental is becoming rapidly more widespread, especially in urban areas. Of the households that own their own houses, the majority are self-built. Relatively few houses are purchased, although the number is increasing rapidly – from 1.3% of the total in 2002/3 to 3.3% in 2009/10.

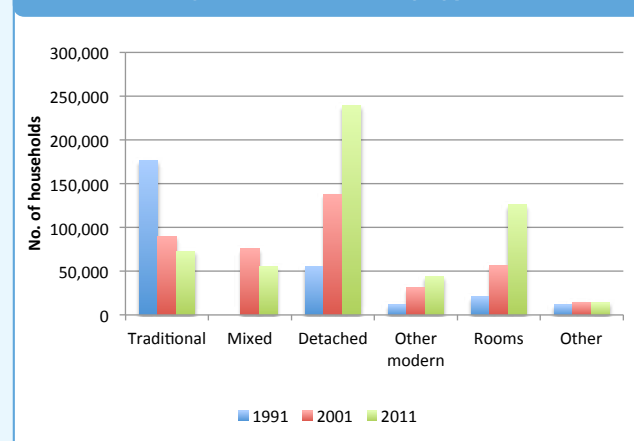
Figure 1: Housing by Source, 2009/10



Source: BCWIS

The nature of housing is also changing. Housing census results from 1991, 2001 and 2011 show that there has been a major shift away from “traditional” housing to modern “detached” housing. This essentially means that thatched huts are being replaced by simple brick structures. Other important changes include the rise of urban forms of modern housing such as semi-detached, town houses and flats – although this still accounts for a small proportion of the overall national total. Furthermore, many more people are living in “rooms” – small urban accommodation on multi-residential plots.

Figure 2: Households by Type



Source: Statistics Botswana – Human Settlements Report, 2013

Concerns of housing availability and affordability are a major issue. There is a shortage of land for residential property in many areas, notably in Gaborone and Francistown, notwithstanding Botswana’s relatively low population density. The reasons for residential land shortages are many, including relatively low density construction in urban areas (few blocks of flats or other multi-residential developments); the rapid growth of urban areas; constraints to the conversion of agricultural land to urban land; and inefficient administrative systems for land allocation. Urban land prices are therefore relatively high.

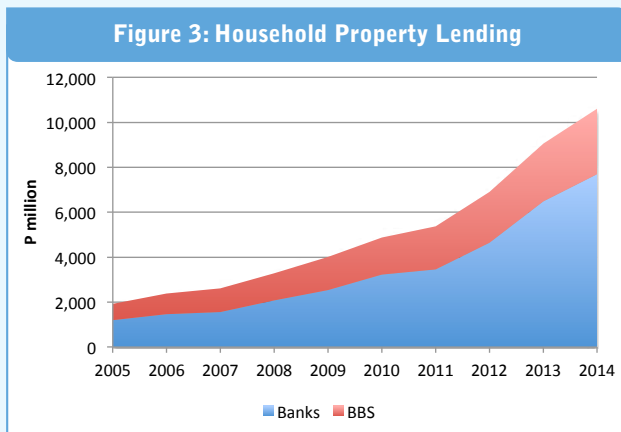
Housing Finance

Given the most households own their own properties, a key question is how they finance the acquisition of what is, for most people, their largest asset.

¹The total employment annual growth rate, as reported by Statistics Botswana, should be taken with a pinch of salt as there is very limited data on the informal sector in Botswana.

SPECIAL FEATURE **Mortgages**

A mortgage is often considered to be the ideal way to finance housing. The nature of a mortgage – a long-term loan, secured against the property – keeps risks and costs down: the long-term (up to 25 years) keeps repayments low, and the fact that the loan is secured should reduce the risks to the lender, supporting a relatively low interest rate (compared to unsecured borrowing).



Source: Botswana Financial Statistics

Mortgage lending in Botswana is mainly provided by the commercial banks and the Botswana Building Society (BBS), and has been growing rapidly in recent years – passing P10 billion in 2014, compared to less than P5 billion at the end of 2010¹. Property lending to households has grown by 21% a year over the past decade, and has been an important contributor to overall credit growth.

Despite this growth, mortgage lending in Botswana is relatively small. We estimate the total number of mortgages at around 15,000; which means that only around 3% of houses are financed by a mortgage. The number of mortgages is low compared to the number of people in formal employment (340,000²).

Mortgage finance accounts for just over 30% of bank lending to households. Relative to other upper-middle income countries in Southern Africa, the ratio of mortgage finance to GDP in Botswana is low.

Table 1: Mortgages as a proportion of GDP, selected countries, 2013

Country	Mortgages as % of GDP
South Africa	22.0%
Namibia	18.2%
Mauritius	13.0%
Botswana	6.6%
Zimbabwe	2.8%
Zambia	1.3%

Source: Centre for Affordable Housing Finance in Africa (2014)

Other forms of housing finance

So how is housing financed in Botswana? There are various channels:

Other forms of bank borrowing, such as unsecured personal loans. Data from the 2014 FinScope survey on access to finance shows that borrowing for the purposes of acquiring or developing property is one of the most important reasons for taking credit. Given the small number of mortgages, this suggests that borrowers are using other sources for financing property.

Unsecured personal loans from the banks and non-bank lenders are suitable for some property-related investment, such as purchasing plots, housing extensions or renovations, but are not well suited to the purchase of modern, formal housing, due to their shorter maturities and higher costs.

Self-Help Housing Agency (SHHA) Loans. The SHHA scheme entails the provision of urban (or urban village plots) to low income households by local authorities, on which people will self-build. Recipients must have a monthly income from P367 – P4333 per month. Interest-free loans of up to P60,000 for building materials are provided, repayable over 20 years. Unfortunately there is no centralised data on the number or value of SHHA loans provided across the country, or on the repayment record.

“Turnkey” housing loans. This scheme involves local authorities financing the construction of simple houses for low-income households, on plots they already own. The

¹Excludes the following: housing finance provided by employers; for civil servants under the government guarantee scheme through Botswana Savings Bank; and under the BHC tenant purchase scheme.

²Of course this is greater than the number of households with someone in formal employment

SPECIAL FEATURE

same income eligibility requirement as SHAA applies. The maximum cost is P90,000, provided as an interest free loan repayable at P375 per month for 20 years. The scheme is capped at 17 houses per constituency per year (969 nationwide). Government provides the financing, and it was recently announced that responsibility for housing construction is to be transferred to the Botswana Housing Corporation (BHC).

Relative to the cost of commercial financing, the government schemes represent a 60-70% subsidy.

Self-financing and loans from family and friends. There is little information on this, but it is probably very common.

Constraints to conventional mortgage finance

There are a number of reasons why conventional mortgage finance is not widely used in Botswana.

Affordability: one of the major housing problems in Botswana is the mismatch between expectations regarding housing quality, the costs of conventional housing, and incomes. Essentially, only a few households can afford the type of housing that can be financed with a conventional mortgage.

Housing types: most housing is informal or semi-formal, may not be compliant with modern building regulation, is built on an incremental step-by-step basis, and may not readily mortgageable (because it has low marketability in the event of foreclosure).

Low collateral values, especially outside of urban areas. Even formal housing may not present an attractive collateral proposition to a bank or building society. Housing markets outside of Gaborone are thin, compounded by restrictions on the ownership of property on tribal land by non-citizens.

Unclear/semi-formalised title. In rural areas and some urban areas, land title is unclear or only semi-formalised, which again undermines the ability of a financial institution to register a bond against a mortgage loan. This applies to plots allocated informally (by village headmen), or formally against a customary lease, or in SHHA areas against a certificate of rights. While these latter two forms are legal and can be converted to formal title, the process is expensive.

The “mass market” for housing finance is not therefore for traditional mortgages, but for more flexible, smaller-scale, incremental forms of finance. This needs to be suitable for households with lower and irregular incomes, and often the property being constructed will not have significant value as collateral security.

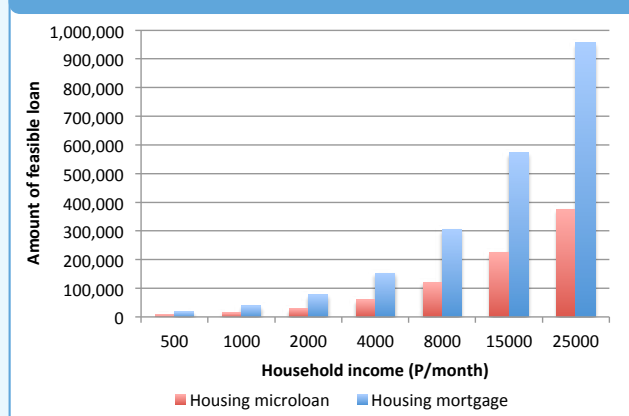
Affordability

Although Botswana has a relatively high GDP per capita, income levels are low for many households. This is due in part to high inequality, and also to the low proportion of GDP that goes to wages. As an illustration of affordability, we calculate the size of housing loan that households with different income levels can afford to borrow, using a benchmark that housing costs should not amount to more than 40% of income. We do this for a conventional mortgage and housing microfinance, as laid out below:

Type of financing	Tenor	Interest Rate
Housing Mortgage	20 years	11%
Housing Microfinance	5 years	18%

The maximum loan that households in different income brackets can afford is shown below.

Figure 4: Affordability of Housing Loans



Source: Econsult Botswana

SPECIAL FEATURE

How does this compare with housing prices? The selling prices of BHC stock provide a benchmark, as below (BHC prices are broadly indicative, or slightly below, the costs of housing in the formal private sector):

Table 2: BHC Housing Prices

Type	Price Range (Old/New Stock)
Low Cost (58-70m ²)	P408,000 - P513,000
Medium Cost (70-99 m ²)	P537,000 - P855,000
High Cost (> 100m ²)	P947,000 - P1,276,000

Source: Botswana Housing Corporation

A household would have to be earning P10,000 or more a month in order to qualify for a mortgage to buy the cheapest low cost house, and P25,000 or more to afford a P1 million house. Very few households in Botswana earn this much. Based on recent household surveys, we estimate that half of Botswana households have a monthly income of P2,000 or less, and a quarter are in the range of P2,00 to P4,000. None of these households would qualify for a mortgage loan large enough for the purchase of a completed modern house. Even at the upper end of this range, an income of P4,000 would only qualify for a mortgage of around P150,000. It is therefore apparent that the size of affordable housing mortgage loans for most households is totally out of line with the price of housing in the market. The binding constraint on the provision of housing finance through mortgages is not the availability of funds, but the availability of effective demand. In turn the lack of effective demand is the mismatch between income levels and housing prices.

Another approach needed?

Conventional modern housing may be unaffordable for the majority of households. But it is possible to build much more cheaply – as has been shown by the Turnkey Scheme (which delivers a “two and a half”, with electricity, but excluding the cost of land, for P90,000). Indeed most households in Botswana have experience of building a simple house for P150,000 or less.

The question is, how can the financial system help them? As noted above, conventional bank mortgage finance is not likely to be the answer – a house built for P150,000 is unlikely to be attractive collateral for a bank, and indeed many households with low incomes would not qualify for such a large, long-term bank loan.

Perhaps there is a role for housing loans built around microfinance principles – small loans, unsecured or with alternative collateral, relatively short-term, with mandatory prior savings, where the successful servicing and repayment of one loan unlocks access to another, larger loan. Such financing is well suited to the construction of small-scale housing, or incremental construction, room by room. Currently, such housing microfinance is not available in Botswana.

While the government schemes make a useful contribution to alleviating housing affordability constraints, they only cater for a lucky few. It might be more productive, in the longer term, to use those resources – in an appropriate policy framework - to support the development of alternative housing financing mechanisms that could have a broader and more equitable impact, and be more sustainable.

PO Box 45016, Gaborone, Botswana

tel [+267] 390 0575
fax [+267] 390 0585

email keith@econsult.co.bw
bogolo@econsult.co.bw
thabelo@econsult.co.bw
brandon@econsult.co.bw
sethunya@econsult.co.bw
www.econsult.co.bw