

STOCKHOLM SCHOOL OF ECONOMICS

Department of Economics

Master's Thesis in Economics

Housing Finance: The Case of Botswana

Abstract

Housing finance plays an important role in shaping a country's wider housing system and services the stability and effectiveness of the financial system, promoting social stability and economic development. This thesis explores the housing finance sector in Botswana by distinguishing necessary conditions and possible bottlenecks to development of an efficient market, as well as providing possible solutions. Stable macroeconomic conditions, a legal framework for property rights, a functioning property market, mortgage market infrastructure and funding mechanisms are five preconditions which have been used to evaluate the market. The necessary data was collected during a minor field study in Botswana. The analysis shows that there are inefficiencies in all five preconditions, where the high level of inflation, the complicated land tenure and administration system and the small size and lack of competition of the banking sector in Botswana were the main impediments to housing finance development. The appropriate role of government interventions should be as a facilitator by improving the functioning of the housing finance markets, rather than direct provision.

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Abbreviations

BBS	Botswana Building Society
BDC	Botswana Development Cooperation
BHC	Botswana Housing Corporation
BLIS	Botswana Land Information System
BoB	Bank of Botswana
BoBC	Bank of Botswana Certificates
BSB	Botswana Savings Bank
CEDA	Citizens Entrepreneurial Development Agency
CGFS	Committee on the Global Financial System
FSPG	Fixed Period State Grant
GEMVAS	Government Employee Motor Vehicle Advance Scheme
LAPCAS	Land Administration Procedures, Capacity and Systems
LTV	Loan-to-value
NDB	National Development Bank
NDP	National Development Plan
NGO	Non Government Organisations
P	Pula
PPP	Public Private Partnerships
SACU	South African Customs Union
SHHA	Self Help Housing Agency
SLAP	State Land Allocation Policy
SLIMS	State land Information Management System
TFP	Total Factor Productivity

Introduction

A growing body of research has shown that correctly structured finance systems can deliver improved housing for larger population segments, which has caused housing finance to rise to the top of urban policy and research agendas (Datta & Jones, 2000). The aim of a formal housing finance system is to create institutional arrangements which can efficiently mobilise and channel funds from savers to borrowers to finance a housing investment (Chiquier & Lea, 2009). At an individual level, housing finance makes it possible for people to have shelter and a real asset, which might be the largest investment a household makes. At a macro level, it generates economic growth via job creation, economic linkages and it spurs entrepreneurial activities (IFC, 2010). In addition, housing finance plays an important role in shaping a country's wider housing system and services the stability and effectiveness of the financial system and the overall financial portfolio of the public, providing social stability and promoting economic development (Akinwunmi et al., 2008).

A deregulation of financial systems and increased competition between financial institutions has taken place in many developing countries, which has led to a significant increase in the efficiency with which mortgage markets delivered credit to home buyers (Lea, 1994). Although the volume of housing finance has grown in many developing countries, the share of housing investment financed through formal financial intermediaries remains very small and housing finance accounts for only a small share of financial assets (Porteous, 2006). Botswana is one of the countries that has experienced such development.

When Botswana became independent from Great Britain in 1966, it was one of the ten poorest countries in the world. Since then, the country has faced a stable and relatively rapid economic growth, much due to stability in both the economic and political environment. The financial system is relatively well developed, with little government intervention and an independent central bank (Index of Economic Freedom, 2010). Vision 2016 is Botswana's strategy is to propel socio-economic and political development. One of its seven key goals is to make Botswana a prosperous, productive and innovative country, in which housing and shelter has an important role. It is stated that by 2016, all citizens of Botswana should be able to obtain access to good basic shelter, either in urban or rural areas (Botswana National Vision Council, 2004).

The purpose of this thesis is to investigate the housing finance market in Botswana, distinguish the possible hindrances to the development of an efficient housing finance market in the country and conclude how the market conditions could be improved. We set out to map the current

situation and contrast it to the theoretical framework. Thus, we can reach in-depth understanding about the mechanisms prevailing on the market and identify conceivable bottlenecks and provide possible solution.

Botswana is an interesting case to study in terms of housing finance as it is sparsely populated and well organised, with a relatively mature financial system and a history of economic and political stability. It has one of the lowest population densities in the world, amounting roughly 3 per km² (Encyclopedia of the Nations, 2010), and does not experience any population pressure. Instead, there has been a structural change in the population pattern with urbanisation causing population relocation. A growing middle class with increasing purchasing power has rising expectations on housing provision and quality. Furthermore, a majority of the low income urban population is accommodated in publicly promoted and managed sites and service schemes, rather than informal settlements. These factors make it possible to attain an overview of the housing finance market and its mechanism under more controlled conditions, than if the country was to experience overpopulation for example (Dumba, n.d.). Nonetheless, the complexities around its land tenure system, in combination with lack of an adequate supply of formal land impedes housing provision and therefore need extra focus in this study. The paper will start by describing five preconditions necessary for an efficient formal housing finance market. The case of Botswana will further be analysed in the context of these preconditions, and identify possible bottlenecks to a fully efficient housing finance market. In the discussion, these hindrances will be discussed further and possible solutions will be provided.

Theoretical background

For a long time, studies relating to housing tended not to focus on housing finance per se, but rather emphasised topics such as urbanisation, unplanned settlement upgrading, the lack of residential land for formal housing and so forth. In such context, housing finance has primarily been discussed as one of a number of constraints, rather than as the focus of the research (Tomlinson, 2007). However, a growing body of research has been highlighting its importance for social and economic development, causing housing finance to become a distinct field of knowledge and endeavour. It has slowly emerged from the grey zone between urban development and financial sector development, to assert its claim as a distinct field in its own right (Porteous, 2006).

When reviewing previous literature about housing finance in developing markets, much focus is naturally placed on the liberalisation and development of financial markets (Porteous, 2006;

Committee on the Global Financial System, 2006; Chiquier & Lea, 2009) and macroeconomic stability (Arimah, 1999; Akinwumni, 1999; Lea 2009) to facilitate mortgage delivery. Although such preconditions are necessary, they are by no means exhaustive. This is especially the case in many countries in sub-Saharan Africa, where un-transparent systems for land and property rights affect housing delivery and the provision of mortgage finance. Studies on housing finance in developing countries tend to either focus on macroeconomic and financial sector development or on land and property rights (De Soto, 2000; Brandao & Feder, 2006). All aspects are important in order to review conditions and eventual bottlenecks to the efficient delivery of housing finance in developing countries as they together determine the development of the housing finance market.

In the article *A Literature Review on Housing Finance Development in sub-Saharan Africa* (Tomlinson, 2007), five preconditions for an efficient housing finance market in sub-Saharan Africa are stated by Hassler, on behalf of the World Bank. These are; stable macroeconomic conditions, a legal framework for property rights, a property market, mortgage market infrastructure and funding sources to promote financial intermediation. As each condition is very concise, complementary literature on each of these points have been used. To investigate the housing finance market in Botswana, the five requirements are being used to structure theory, empirical findings and analysis. The theory being used is described in each section of the theoretical background.

Macroeconomic conditions

Macroeconomic stability and low and stable inflation and interest rates are crucial building blocks for a functioning housing finance sector (Hassler, referred through Tomlinson 2007). This paper will start by discussing macroeconomic stability as a condition for the development of the economy in general, which in turn facilitates the expansion of housing finance. Additionally, the direct effect of inflation and interest rates on mortgage affordability of the individual borrower will be reviewed. Complementary doctrine by Committee on the Global Financial System (2006), Akinwunmi (2008), UN-Habitat (2005) and Arimah (1999) have been used.

Macroeconomic stability

A lower frequency and severity of economic downturns make household income more stable and may contribute to a willingness to assume higher debt burdens and increased attractiveness of flexible mortgage rate (Akinwunmi, 2008). The linkages between macroeconomic growth and the housing market is not one sided, as housing market developments affect the macro economy as well. If the macroeconomic environment promotes overall economic growth, it will encourage financial sector and housing finance development, which in turn will spur further growth in the

economy with lower rates and inflation, commencing a virtuous cycle of growth (Chiquier & Lea, 2007). According to Fischer (1991), there is a negative correlation between growth on one side, and high inflation on the other. There is also a negative correlation between growth and budget deficit. Budget deficits have a negative impact on growth, as they crowd out physical investment and increase borrowing from abroad, which reduces future national income and future domestic production. Hence, budget deficits and high inflation rates will affect housing finance affordability through its' effect on economic growth.

Inflation and interest rates

A general reduction of inflation levels, as well as a decrease in its volatility, is one of the most important structural factors behind a decrease in risk-free, long-term interest rate (UN-Habitat, 2005). Interest rates reflect the cost of capital, i.e. the price that borrowers have to pay the lender to make use of the borrowed funds (Amirah, 2000). A decline in interest rates stimulates both demand for and supply of mortgage loans. As the demand for mortgage debt is to a large extent influenced by the size of the service costs of the mortgage, lower interest rates will help households to increase their leverage, as well as their loan affordability. Contrary, high interest rates significantly increases the cost of borrowing and has a disproportionate impact on long-term mortgage finance, making it unaffordable for many households. In terms of lenders, high interest rates will make many concerned about liquidity risk which may result in unwillingness to offer mortgage. Hence, lenders may only offer short maturity loans (UN-habitat, 2005). Further, when assessing loan applications, lenders tend to focus on borrowers' nominal debt service costs (principal and interest payments) to income. High interest rates would increase this ratio, making lenders less willing to extend loans (Committee for the Global Financial System, 2006).

In a well-functioning housing market, interest rates on mortgages from both commercial and government institutions are set just marginally higher than prime lending and deposit rates in the commercial banking system (Amirah, 2000). Although interest rates are often determined by monetary policy and macroeconomic trends, state housing institutions or subsidy receiving organisations charge interest rates below market rates in some cases (UN-Habitat, 2005). Interest rates can be especially problematic as to affordability during periods when inflation is high. It tends to worsen the so called front-end loading problem. In such situation, the real burden of interest payments falls very heavily in the beginning years of the mortgage, which generally coincides with the stages when financial burdens are high and income have not yet been maximised (UN-Habitat, 2005).

Property rights

From the perspective of security, formal property rights over land are useful to improve the efficiency of the credit market and the delivery of housing finance (Brandão & Feder, 1996). In order to use land as collateral for mortgages, it must be both easily transferable and the property rights over it must be clearly defined. According to Hassler (referred through Tomlinson 2007), a sound and conducive property rights regime requires: (1) Clear individual right to sell and pledge land and (2) Clear procedures to regularize informal tenure, including litigation resolution.

Complementary literature by Levine (2005), Knack and Knacker (1996), De Soto (2000), Brandão and Feder (1996), FAO (2002), COHRE (2006), Payne (2000) and World Bank (2000) have been used. After giving an overall view of property rights and tenure systems, the issues of tenure security, land and title registration and land administration will be discussed, as they illustrate the most crucial parts of property rights in Botswana. Even though much of the regulatory framework is in place, the country still has a rather complicated land tenure system and its land administration system is described as work in progress (Nkwae, 2008).

Definition

Property rights have been defined by Levine (2005) as the degree to which a broad set of policies, legal and political systems, and informal norms define and protect private property, apply the law equally to all and limit government interference in private contracting. Research on political economy and property rights have suggested a correlation between the importance of a functioning state protection of property rights in a formal property system where ownership and transactions are clearly recorded and long-term economic growth (Knack & Keefer, 1996).

De Soto (2000) points out that the representation of property in the form of a title; a contract or other such record converts a dead asset into live capital. Dead assets are assets which are not adequately documented. Hence, they cannot readily be turned into capital, cannot be traded outside of narrow local circles where people know and trust each other, cannot be used as collateral for a loan and cannot be used as a share against an investment.

Property rights over land

A bundle of characteristics define property rights over land: exclusivity, inheritability, transferability, and enforcement mechanisms. A system of property rights defines the legitimate exclusive uses of land and identifies those entitled to these rights (Brandão & Feder, 1996) while land tenure is defined as the mode by which land is held or owned, or the set of relationships among people concerning land or its product (FAO, 2002). Hence, there is a distinction between property rights of land and tenure.

Secure individual property right is critical in establishing a structure of economic incentives for investments in land-based activities. Land and other real estate are ideal collateral for mortgages, because their physical properties are less exposed to destruction and abuse than other property such as machinery or livestock. The value of property rights and the functioning of land markets depend on formal mechanisms for defining and enforcing those rights, including the court system, police, the legal profession, land surveys, record keeping systems and titling agencies, as well as on social norms and religious customs (Brandão & Feder, 1996).

Tenure security

Tenure security is the right to be protected against permanent or temporary removal against the will of an individual, family and/or community from the home and/or the land they occupy, with the provision of, and access to, appropriate forms of legal or other protection (COHRE, 2006). A precondition for creating equitable and efficient land and housing markets is the existence of an appropriate land policy, in which both tenure and property rights occupy a central element (Payne, 2000). Tenure security and property rights are listed among the most important factors influencing housing demand and it is claimed that insecure tenure leads to under-investment in housing and to reduced housing quality (World Bank, 2000).

Tenure security is one of the factors affecting the way households utilise assets. If tenure is secure, it creates an environment that is more beneficial to production and investment, therefore the standard of living is relatively high given available household resources. If tenure becomes insecure, on the other hand, the household becomes less productive and the standard of living declines (World Bank, 2000).

Land and title registration

To stimulate investment in housing and infrastructure, the registration of any type of right is often more important than the issuing of freehold ownership titles per se. It is important to establish systems of land records and title registration, which enable potential buyers or mortgage lenders to verify the validity of property rights offered for sale. As asymmetric information exists in most cases (the possessor of land often has more knowledge about the extent of the rights to the land compared to other individuals), the tradability of land is limited, both since less transactions will take place and since lower prices will be offered as the buyer's experienced risk is higher (Brandão & Feder, 1996). Without a formal property process, any trade of an asset will require an effort to determine the basics of the transaction: Does the seller own the real estate and have the right to transfer it? Can he pledge it? Will the new owner be accepted as such by

those who enforce property rights? In developing countries, many of these questions are difficult to answer which is why the sale or the lease of a house may involve long procedures, i.e. the transaction cost is very high.

De Soto (2000) also points out the importance of a property register and transparent information. By gathering all information about properties in one register, information will become more accessible and functional. As a result, citizens can obtain descriptions of the economic and social qualities of any available asset without having to see the asset itself. Consequently, an asset's potential will become easier to evaluate and exchange, enhancing the production of capital. Reducing information asymmetry in the land market will improve its operation (Brandão & Feder, 1996).

Land administration

Functioning land administration is of great importance for tenure security, as tenure insecurity not only is a direct consequence of a legal framework incapable of determining boundaries and settling disputes, but also a consequence of inadequate land administration (Brandão & Feder, 1996). The land administration system should be able to solve most conflicting claims in the field, which requires technical and legal knowledge within the organization. The land administration should also be in charge of land assessment and valuation.

Releasing property owners into a more integrated legal system facilitates their accountability, as they are linked to real estate and no longer anonymous. As a result, people who do not pay for goods or services they have consumed can be identified, charged interest rates, fined etcetera. A great part of the potential value of legal property is derived from the possibility of forfeiture as people have something to lose (De Soto, 2000).

Property market

According to Hassler (referred through Tomlinson 2007), it is highly important to establish a functioning property market through an efficient housing delivery system to facilitate the development of housing finance. Malpezzi's (1999) illustration of how the housing work markets will be used as the framework when discussing common bottlenecks against an efficiently functioning housing market. Complementary research by Warnock and Warnock (2007), World Bank (1993), Hoek-Smit (2006) and Brandão & Feder (1996).

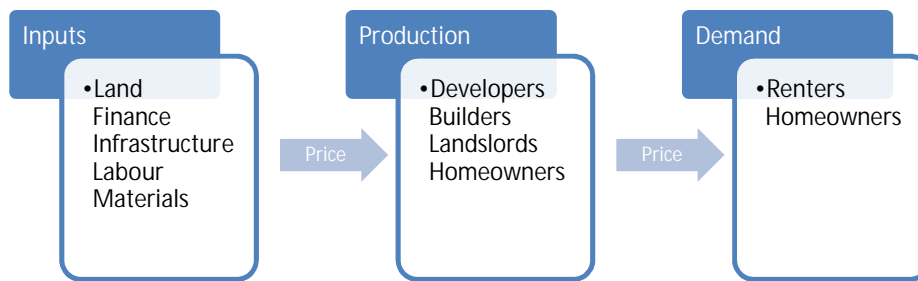


Figure 1. Schematic Diagram of the Housing Market. Source: Malpezzi (1990).

Figure 1 shows a schematic illustration of how the housing market works. Housing supply depends on both input and production. Input factors such as land, finance, infrastructure, labour and materials are combined with production actors as developers and builders to produce new houses. When the market mechanism, i.e. the forces of supply and demand functions properly, relative prices will inform producers of housing services about whether the quantity should increase or decrease, and the input suppliers about providing more or fewer inputs. Conversely, with an inefficient housing delivery system, the relative prices become distorted and do not reflect the actual demand on the market (Malpezzi, 1990).

It is essential that all parts of the housing delivery system work well in order to ensure a functioning property market, as it has effects both on supply and demand side of housing provision, i.e. the availability of housing is governed by supply and demand factors. Housing demand is rather predictable as it mostly varies with income and the availability of mortgage finance in each country (V. Warnock & F. Warnock, 2007). Housing supply, on the other hand, tends to be idiosyncratic, both due to the structure of the input and production sector, but also due to the housing sector's regulatory environment. This is especially the case in terms of land use policies and building regulations (World Bank, 1993).

The market for house production is competitive in most countries, due to large economies of scale and few barriers to entry (Hoek-Smith, 2006). Conversely, the market for inputs is, for various reasons, not competitive. For example, ownership in input markets can be so concentrated that owners can fix prices, as in some land markets. Further, large economies of scale make the production of some inputs a natural monopoly, as in some types of infrastructure. Moreover, competitive allocation of inputs as finance and serviced land can be restricted due to government regulations. The implications of this analysis is very clear; problems in property markets are often caused by deficiencies in supply, specifically in input markets. Hence, obstacles

to input markets must be removed in order to ensure an efficient delivery of housing (Malpezzi, 1990). For example, without new land and new housing, improvements in housing finance would only generate price effects. Countries who have experienced housing finance system expansion due to macroeconomic stability and lower interest rates, while for example input factors as the supply of serviced land and developer finance have remained stagnant, have also experienced negative property market outcome. Hence, increased access to credit is not sufficient for the development of a property market, an efficient housing delivery system is also necessary (Hoek-Smit, 2006).

Public sector actions to provide infrastructure, to regulate the housing sector, and to a limited extent, to direct production of public housing are factors that both affect the cost of housing production and the responsiveness of housing supply. Most housing markets are not completely driven by market mechanism, especially in developing countries. However, inappropriate regulatory regimes related to land development, construction and management further slows down the expansion of new housing construction. Regulation for subdivision of land, infrastructure requirements and building standards tend to be unnecessarily rigid and not in line with household incomes. Further, obtaining permits for development and construction of residential construction often require excessive time and costs, and is fraught with uncertainty (Hoek-Smit, 2006). Restrictions on transferability are often introduced by the government by concerns for social tension. Yet these are commonly circumvented as the potential gain provides incentives from both sides of the transaction to complete the transfer (Brandão & Feder, 1996).

Mortgage market infrastructure

In this section, the importance of a properly functioning mortgage market infrastructure in housing finance will be discussed. Hassler's points are used as outline for the analysis. As these are very concise, complemented research by Chiquier and Lea (2009) and De Stoto (2000) has been added. The development of mortgage markets will depend on how effective procedures of mortgage enforcement are. According to Hassler (referred through Tomlinson 2007), a functioning mortgage market infrastructure requires a legal capacity to develop:

- title and collateral registration systems, e.g. enforceability of contracts and rights, transferability of titles, encouraging formal tenure, minimizing corruption etc.
- flexible underwriting approaches in terms of risk assessment and management tools, borrower credit, information, income verification etc.
- adequate payment systems, e.g. payroll deduction in case of default

- foreclosure procedures which will ensure lender's security

Land titling and collateral

As previously discussed, an accurate and comprehensive land registration system is necessary for achieving effective property rights and mortgage market. The lack of an effective title registration system is a major barrier to lending, as borrowers without a clear property title cannot use it as collateral. Empirical evidence shows that an efficient system of mortgage collateral increases the welfare of society, as creditors make mortgages more accessible to low or informal households and credit rates tend to reflect a lower risk premium (Chiquier & Lea, 2009) .

Risk management

Property markets are associated with inherent risk due to its cyclical nature of price variations. Undefined system for titling, collateral and foreclosure can further cause lenders to restrict the credit flow to housing. In such situation, effective risk management techniques can create a climate for safe lending. The ability to price and manage these risks is a major determinant of the cost and availability of housing finance, as well as the provision of credit for affordable housing (Chiquier & Lea, 2009). Credit risk is defined as the risk that the loan will not be returned, with whatever interest or other charges, in a timely manner. There are two primary measures of credit risks; probability of default and loss given default. Probability of default measures the likelihood that the borrower will fail to make payments over the lifespan of the loan. Loss given default calculates the loss in case of foreclosure (Chiquier & Lea, 2009).

Credit risk management takes place through both the original underwriting and servicing of a loan. Effective servicing involves payment collection as well as active monitoring of repayment performance and corrective actions in case of default. Lenders can reduce the credit risk by securing the payment stream, e.g. by payroll deduction or direct debits of borrower's current bank accounts (Chiquier & Lea, 2009). Mortgage lenders underwrite credit risk in terms of:

1. the ability and willingness of the borrower to repay the loan
2. the value of the collateral relative to the loan amount
3. the lender's ability to efficiently enforce the mortgage lien in case of default

Ability to repay

Mortgage lenders determine a borrower's ability to repay by comparing monthly payments to income and by assessing the presence of liquid reserves, investments and savings (Chiquier & Lea, 2009). Collateral is irrelevant unless households can satisfy this initial criterion, since responsible institutions would be reluctant to provide loans only to have to foreclose on them

soon afterwards. This inevitably restricts mortgage finance to households with adequate levels of income or savings and this, by definition, excludes the poor according to De Soto (2000). The most common measure for the ability to repay is the debt-to-income ratio. The higher the ratio, the greater stress will the debt payments place on households. Lenders further assess borrowers' willingness to pay by collecting information on his historical record of payments of other debts.

Collateral relative loan value

According to Chiquier and Lea (2009), the amount of equity the borrower has in the property is also an important factor in reflecting willingness to pay. Hence, one of the simplest ways to manage mortgage credit risk is to set a maximum acceptable loan-to-value (LTV) amount. The less certain lenders are on house price trends or the legal support for enforcing the mortgage lien, the less likely are they to set a high LTV. Accurate assessments of the value of the real estate are one of the most crucial support functions in mortgage lending. As the LTV has been proven to be the single most important predictor of default, the precision of the valuation is key to determining the accurate LTV. In the absence of appraisal, lenders will have difficulties achieving their preferred distribution of risk and portfolio size. Without satisfactory appraisal models, LTV levels are likely to be lower than expected in less developed markets, as risk averse lenders reduce their appraised value significantly or rely on the clients to a higher price than what is declared to the seller. Further, as the appraisal can be the basis for the level of the borrower's property insurance coverage, it is linked to collateral risk of the borrower. Chiquier and Lea (2009) note that property insurance also is a necessary condition for mortgage lending. At one end, mortgage markets require property insurance to reduce collateral risk. At another end, a growing mortgage market provides necessary incentives and scale for development of cost-effective homeowner property-protection packages.

Ability to enforce mortgage lien

Lastly, the inability to foreclose and repossess collateral is a major source of default. The time and expense in foreclosure discourage lending and increases the cost of borrowing, for low income households in particular (Chiquier & Lea, 2009). Shorter periods for execution and greater certainty in realisation of collateral rights can reduce risk and costs, e.g. loss in interest or principal from deterioration in collateral value. The discouragement effect of an effective mortgage enforcement system will also improve the credit culture, as borrowers are more likely to honour their debt obligations if there are significant consequences (Chiquier & Lea, 2009).

Funding

Access to adequate sources of finance is critical for the effective operation of housing finance markets (UN-Habitat, 2005). Housing finance spawns a broad set of institutional arrangements, ranging from depository institutions specializing in mortgage finance to the issuance, sale and trading of mortgage bonds and securities (Chiquier & Lea, 2009). Maximum social return to the housing stock value generally requires liquidity or efficient transfer of real estate interests and that funding is freely available at market rates (Malpezzi, 1999). Early studies in housing finance emphasized the role of the primary mortgage market, defined as retail lending to households. However, the trend in both developed and developing markets, has been to move away from such models, in order to break the direct link between small scale saving and mortgage lending. Secondary institutions, involving wholesale lending to retail providers, are becoming more important as proximate sources of funds (Malpezzi, 1999). According to Hassler (referred through Tomlinson 2007) primary market development must be encouraged as a first step in increasing funding provision. When such system is in use and efficient, a secondary mortgage market with capital market funding can be commenced. These points will be used as the framework for analysis, and complemented by research by Chiquier and Lea (2009), Lea (2000), Malpezzi (1999) and UN-Habitat (2005).

Primary mortgage market

In many countries, the primary mortgage market still serves most of the formal mortgage lending, where the retail depository institute is the traditional and dominant mechanism for housing finance. A key feature of a depository system is that the depository institution performs the primary functions of origination, portfolio risk management, servicing and funding (Lea, 2000). The depository institution provide loans to homebuyers gathering savings from households and institutions, which is showed in figure 2. By gathering savings from non-homebuyers, the institution can access a much larger pool of funds through a stable mass of core deposits at relatively cheap funding rates (Chiquier & Lea, 2009).

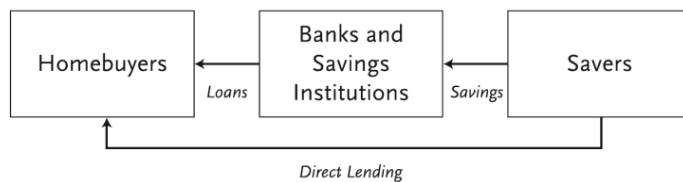


Figure 2. Primary Mortgage Market: Depository and Direct Lending System. Source: Chiquier and Lea (2009).

Mortgage finance involves the lender's commitment of capital for long periods of time. The ability to dispose an asset within a reasonable time and value is therefore a vital factor for mobilising long term resources. If deposits are the only source of finance available to mortgage lenders, lenders will face a great risk when committing long-term loans with only short-term finance in return. The risk does not only concern availability of resources, as deposit-taking institutions can be highly liquid. It is rather a concern about their liquidity situation over a long period of time. The banking sector has been reluctant to provide long-term mortgages due to this poor match in maturities (UN-Habitat, 2005).

Secondary mortgage market

The secondary mortgage market was developed to deal with the risks associated with short term deposits and long term loans in primary markets. A secondary market involves sales of mortgage loans or securities backed by specific pools of mortgages. As shown in figure 3, the functions of origination, servicing, risk management and funding are unbundled and managed by different specialised entities. Hence, both risk and ownership of mortgage loans will be transferred to a third party. Mortgage securities provide multiple instruments by which housing lenders can access important sources of funds and better manage and allocate part of their risk (Lea, 2000).

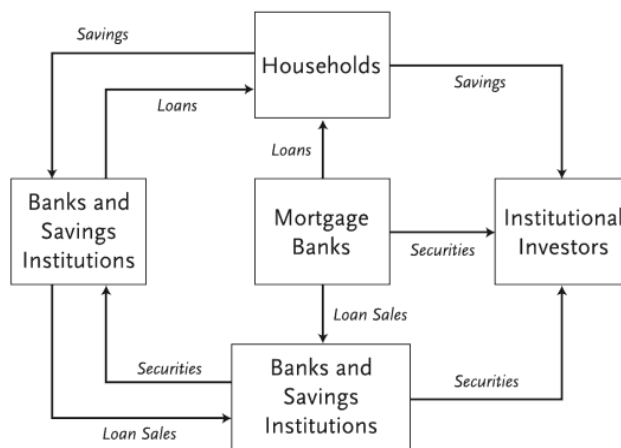


Figure 3. Housing Finance with a Secondary Mortgage Market. Source: Chiquier and Lea (2009).

Nonetheless, it is not possible to have a sustainable secondary mortgage market until there is a well-developed and competitive primary market. A sustainable secondary market involves generating continuous flow of transactions that will provide liquidity to the market, enhance investor and regulatory comfort and understanding, and achieve the desired increase in availability of funds and decrease in the relative cost of mortgage credit. This can only be

achieved if there is a sufficient volume of attractively priced, well documented and underwritten mortgage loans that are serviced by competent and dependable primary institutions. Further, the degree of competition in the primary market may have a major influence on the readiness of lenders to participate in a secondary market. Mortgage rates must provide a return that is attractive relative their alternative investment opportunities, e.g. a positive spread over comparable duration government bonds (Lea, 2000).

Summary of theoretical framework

In order to support a functional housing finance sector in developing countries, there are five preconditions which need to be fulfilled. Firstly, macroeconomic stability, with stable output growth and low and stable levels of inflation and interest rates, is a necessary condition as it affects mortgage affordability. Further, a conducive and transparent system and regulatory framework for property rights, land tenure, land registration and land administration is vital in order to secure collateral for mortgage provision. Additionally, it is important to establish a functional property market, which respond to the supply and demand forces for housing. As demand is quite predictable in most countries, it is in the supply side where most obstacles are found. On the credit side, there must be an efficient mortgage market infrastructure, where processes for risk management are defined and there is a clear title and collateral registration system for mortgage provision. Lastly, there needs to be adequate sources of funding from lenders to borrowers. Though the traditional funding provision has come directly from primary mortgage institutions, there has been a shift towards capital market funding in the form of secondary institutions.

Method

Research method and data requirement

The purpose of this thesis is to investigate the housing finance market in Botswana, distinguish the possible hindrances to the development of an efficient housing finance market in the country and conclude how the market conditions could be improved. To reach this purpose, a minor field study in Botswana has been carried out. Five necessary conditions for an efficient housing finance market, by Hassler (referred through Tomlinson 2007), are being used as a tool for structuring this thesis. Other complementary theories have been applied to each of the five conditions, which together constitutes the theoretical framework for this thesis and has been applied to the case of Botswana.

With help from relevant theory, we aim to explain the empirical observations found in Botswana. In other words, the theory chosen for this study is being tested empirically for the case of Botswana. By first giving an overview of theory and then analysing the empirical data from this framework, the reading is facilitated and the insights easier to understand. It also allows us to compare and contrast empirics to theory to guide us in the analysis of bottlenecks and possible improvements in Botswana . A qualitative method is beneficial as it allows for a more in-depth analysis of a specific event.

The structure by Hassler (referred through Tomlinson 2007), was applied on the housing finance market in Botswana and used as a checklist to see what information that was needed for this study. The information that needed to be gathered concerning Botswana was mainly on the macroeconomic situation, the legal framework for land property rights, the different stakeholders in the housing finance market, the mortgage market and the government's view and approach to housing finance. To receive all necessary data a minor field study was carried out in Gaborone during eight weeks. Gaborone, being the centre for business, finance as well as politics in Botswana made it possible for us to conduct interviews and collect data within all necessary fields, saying that we do not see any larger gaps in our material. However, we observe two drawbacks in collecting data and carrying out a study in a country such as Botswana. Firstly, actual statistics and quantitative data do not exist to the extent that would have been preferred. Secondly, implementation processes tend to be rather long in Botswana, which has made it more difficult to draw conclusions from changes in regulation etc. taking place. Being aware of these to problems, we have been forced to rely more on the information given by interviewees and have therefore asked for confirmation of facts from other interviewees.

Data Gathering

Interviews

Conducting interviews is the most common method used for data collection in a qualitative study (Bell, 2000) and also the method that has been used in this study for collecting primary data and one of our main ways of gathering information. Semi-structured interviews are probably the most common type of interviews used in qualitative research and the method that has been used in this study. To be able to compare and contrast the information gathered during the different interviews, almost the same questions are asked to all interviewees, however we still wanted to the interviews to be flexible so that there was room for other important information and opinions to arise (Dawson, 2007).

The selection of interviewees in a qualitative study is of high importance to find the best and most relevant information. To do so, we started with establishing contact with Jefferis and Hinchliffe in Gaborone, two consultants within housing finance, they could recommend us interviewees to contact for further interviews. The interviewees consisted of representatives from Ministry of Lands and Housing, private developers, real estate agents, researchers, Non-Government Organisations, public programs for housing and the commercial banks. The housing finance in Botswana being a rather delimited area for research, with a number of 27 interviews we believe the most important stakeholders within the sector have been covered, including interviewees from both public and private sector.

When using interviews as a way of collecting information, one has to consider that there will be a certain bias. Depending on who the interviewee is, different aspects and views on the subject will be brought up. In qualitative studies there is always a risk of anecdotism, that the study is based on a few well-chosen and not on an critical examination of all data. However by having carried out several interviews with different stakeholders, which all had the opportunity to express their opinions, we believe the bias is minimized. Moreover, the interview material is combined with other data and material, which further minimizes the bias.

Secondary data

Initially a literature study was carried out as the interview questions and the theoretical framework followed from the gathering of secondary data. However, more secondary data about the housing finance market in Botswana in specific was needed. In Gaborone, our main focus was gathering primary data through interviews, but we also collected secondary data. Most interviewees provided us with written material about their company/organisation, and the academics we met suggested useful articles. However we believe the most important documents we got access to were the documents written by governmental departments for both internal and external use, which have been studied carefully. We were aware of the fact that there is a risk that the information in the documents given by the government is biased. Nonetheless, we still consider them important in order to form an understanding of the ministries' work, their view on housing finance and their goals for the future.

Background

Botswana: An introduction

Botswana is situated in southern Africa and has a total area of 602957 square km². With an estimated population of 1.9 million, Botswana has one of the lowest population densities in the world. In June 1964, Britain accepted proposals for democratic self-government in Botswana, formerly the British protectorate of Bechuanaland. The 1965 constitutions led to the first general elections and to independence on the 30th of September 1966. The country discovered large diamond reserves shortly after independence that have provided the financial base for economic growth ever since. The diamond findings have enabled investments in infrastructure, health, education and security. In addition the country has extensive coal deposits. Since independence, Botswana has transformed itself from one of the poorest countries in the world to a middle income developing country with a GDP per capita of \$13,392 and has one of the highest growth rates among the developing countries in the world (CIA, 2009). However, government still struggles with high unemployment rates, poverty and high HIV/AIDS infection rates. The large number of HIV/AIDS infected has led to an average age of 40 years, which is a decrease of 24 years since 1990 (von Rudloff, 2007). Moreover the country has a shortage of educated and skilled people which forms a constraint to Botswana's economic development. The average monthly income in Botswana is P 3000-4000 (Makgato Kelebogile, 16-09-2010).

As one of the founding members of the Southern African Customs Union (SACU), Botswana shares common tariffs with the other members. Membership in the customs union removes many of the trade barriers, such as import duties and taxes between member countries, making it easier to import and export goods within the local region. The country's main exports include diamonds, vehicles, nickel, copper and meat. These products are bought mainly by the EU, SACU member states as well as Zimbabwe (MBendi, 2010). As the country has realised the risk of being dependent on a few natural resources, the government has made attempts to diversify its production (Swedish Trade Council, 2008). Botswana imports products such as food, machinery and transport equipment along with textiles and petroleum products. Most imports come from other SACU members, although Europe, South Korea and Zimbabwe are also meaningful trading partners. Especially South Africa is an important trading partner, both in terms of export and import (MBendi, 2010). The Botswana currency is called Pula (P), which is pegged to a basket of currencies including the South African rand which has significant weight (BankIntroductions, 2006). The Pula has weakened gradually against major currencies over the

last decade, despite the marginally positive trend against the South African Rand (von Rudloff, 2007). As of November 2010, the exchange rate is P 6.55 per 1 USD (ExchangeRate, 2010).

Most people live in villages, towns and cities in the eastern part of the country, where soils are relatively fertile and have good potable water sources. Traditionally, Botswana has been a pastoral society with a predominantly rural population. However, today the urban growth rate is estimated to 7% per annum compared to the country's total growth rate of 3.4%. As a result of the on-going urbanisation, the capital Gaborone and the second largest city, Francistown, have been growing extensively. Today approximately 53% of the population lives in urban areas (Gwebu, 2004).

Land rights

Dualistic system of land

On attainment of independence from colonial powers, most countries in Africa inherited dualistic land tenure and management systems consisting of customary land tenure administered by traditional leaders and statutory or modern land tenure systems controlled by organs of central governments (Kalabamu, 2000). This is also the case in Botswana. Historically, Botswana has had customary procedures governing land tenure, which have secured land rights of the great majority of the population for generations. These were a basic set of principles for the occupation and use of both tribal and state land. An important feature of the customary land tenure system was the right to avail, which was shared by all people belonging to a tribe. A tribesman was entitled to land for free, but he had the duty to protect and conserve it. Although the concept of individual ownership was unknown at the time, the customary rights to residential land were exclusive, heritable and permanent (Ministry of Lands and Housing, 2003).

Though the origins of the customary procedures of land rights are indigenous, many modifications have occurred during the past 100 years. Broadly speaking, the common law of Anglophone southern Africa constitutes the modern statutory law of Botswana. Since independence, a considerable amount of statutory law has been implemented to land. The customary framework has been forced to accommodate new rules to handle changes caused by population and economic growth, urbanisation and changes in land use practices and technology. The principles are rooted in customary law, but in an urbanising Botswana with a rapidly developing urban land market, it is increasingly difficult to sustain them (Adams et al. 2000).

Three tier land system

When Botswana became a protectorate under Great Britain in 1885, the British government categorized and demarcated land in Botswana into three categories of tenure; tribal reserve, crown land and freehold land. After the independence, the three-tier land tenure system was maintained, named tribal land (tribal reserves), state land (crown land) and freehold land. Since then, tribal land has gradually increased from 49 % to 71 %, through conversion of state and freehold land, which is a governmental policy (Kalabamu, 2000). It is also a government policy to buy tribal land around urban areas and convert it into state land, as there is a lack of state land, implying that the cities cannot grow (Mosha A.C., 15-10-2010). Land tenure boundaries are geographically defined, but not static (Finnström & Malatsi, 2008).

Tribal land

Until 1970, tribal land was administered by the chiefs of each village, assisted by ward heads. The Tribal Land Act of 1968 transferred the power of land administration to land boards. A citizen of Botswana is, from the age of 21 years, entitled to apply for four plots for free, residential, cattle post and arable land rights, to any of the subordinate land boards (Ministry of Lands and Housing 2003). However land that has been allocated must be developed within a certain period of time, otherwise it can be withdrawn by the land board. In order to transfer tribal land, it must be developed and approved by the land board. When a transfer of tribal land takes place it is officially not the land, but what has been developed on the land that is being sold (Andreasson Kristin, 16-09-2010). Tribal land is almost never serviced, except from in the Planning Areas decided by government (Mpoloka Dizzy, 06-10-2010).

Tribal land is issued under common law leases and customary law grants. The customary grant is a perpetual right to use, which can be transferred and inherited. It is issued by the land boards in the form of a certificate. On the initiative of the grantee, the customary grant can be converted into a common law lease is granted for 99 years for residential purposes and 50 years for other purposes. To convert a plot into a common law lease, the plot has to be surveyed by a surveyor and registered to get a property designation. The survey is paid for by the plot holder, which is also the only cost for converting a customary law grant into a common law lease (Andreasson Kristin, 16-09-2010). With a common law lease, the landowner can register the land at the Deeds Registry, for purposes such as using the land as collateral (Ministry of Lands and Housing, Botswana & Lantmäteriet, Sweden, 2009). The introduction of common law leases formalised the change of traditional land right into individual private property rights.

State land

In 2009, 25% of all land in Botswana is state land (Ministry of Lands and Housing, Botswana & Lantmäteriet, Sweden 2009). State land is being allocated at market prices, although some citizen groups pay less than market price such as first time home-owners and the lower income group. The middle income groups is paying a cost-recovery price (Mosha A.C., 15-10-2010). All citizens of Botswana, regardless of where they live are eligible for two residential, commercial and industrial plots in the eight urban areas of Botswana provided a first plot has been developed (Ministry of Lands and Housing, 2003). However the waiting lists to be allocated a plot of state land are very long today. In Gaborone, there are 80 000 people on the list, although there is not much state land left to allocate (Tema Ian, 12-10-2010). In general, state land is better serviced than tribal land (Mpoloka Dizzy, 06-10-2010). State land includes all land for state use, e.g. public areas in cities and townships, forest reserves and national parks, and for individual exclusive use with lease right. State land is administered under the State Land Act of 1966, which empowers the President to make and execute grants of any state land in the interest of the state. The administration has since been delegated to the Department of Lands (Ministry of Lands and Housing 2003).

In rural areas, state land is divided into game reserves in terms of national parks, wildlife management areas and commercial ranches for livestock and game farming. In urban areas, residential land rights are granted to individuals in the form of 99 years Fixed Period State Grant (FPSG), which is registered at the Deeds Registry. For other uses than residential, the fixed period is reduced to 50 years (Mathuba, 2003). These can be transferred on the market without third-party involvement. In low-income housing areas, land used to be allocated to eligible households in terms of a Certificate of Rights (COR). COR is a certificate which defines the rights and obligations of the holder and is inheritable, perpetual and secure. However, this form of tenure on state land has been discontinued in favour of the FPSG. This decision was made on several grounds, including that the COR was not acceptable as collateral for mortgages. To convert a COR into a FPSG requires on-site water connection, survey of the plot, registration of the plot and payment of a conversion fee. For this reason, many plot holders are unable to afford such conversion (Ministry of Lands and Housing, 2003).

Freehold land

Land that was acquired by white settlers and companies became freehold land after the independence. Freehold gives perpetual ownership right and can be transferred without land servicing. It is administered under the Land Control Act, which was enacted in 1975. The Act

provides for the control of transactions in agricultural land and regulates transfer of freehold land to non-citizens. Upon transfer, all freehold land is charged transfer duty and capital gain's tax (Ministry of Lands and Housing, Botswana & Lantmäteriet, Sweden, 2009). Freehold land near urban areas and smaller districts have gradually been converted to state land for residential, commercial and industrial purposes. These conversions are controlled by the Town and Country Planning Act, enacted in 1977. The Act is also used to control the development of land in urban and planning areas (Mathuba, 2003).

Land administration

State land, most importantly urban land, is administered according to the State Land Act, by central government and local government councils. As for tribal land, the government enacted the Tribal Land Act in 1968, ushering establishment of new centralised institutions for administering tribal land, i.e. the land boards. The purpose of the Act was to improve tribal land administration, ensure that emerging economic opportunities were adequately dealt with in the land management system, create capacity for handling the complex land use issues and democratise customary land administration. The Act transferred the authority over land from the chief to the land board and introduced certificates as evidence of customary grants of individual rights for wells, borehole drilling, arable lands and individual residential plots. Further, the Act provided for the granting of common law leases with the consent of the President. There are presently 12 main and 38 subordinate land boards. Their responsibilities include land allocation, imposing restrictions on the use of land, cancellation of land rights, authorisation of change of land use and transfer of land rights, and hearing disputes and appeals (Kalabamu, 2000).

Housing finance providers

Main actors in the housing finance market

The Ministry of Lands and Housing exists to provide excellent services in management and development of land, as well as facilitation of housing delivery in the country. The ministry is divided into nine different department, each with different tasks (Ministry of Lands and Housing, 2008). However many responsibilities have been allocated to local authorities. There are a number of governmental programmes aiming to facilitate the housing finance sector and catering for the lower-income group. A short description of each of them follow below.

Botswana Housing Corporation

Botswana Housing Corporation (BHC) is a parastatal that was established as a national agency to provide housing both for government, local authorities and the general public at large. At first,

its main mandate was to cater for the low segment of urban households, but with time this was slowly neglected following market changes (Frank Paar, 11-10-2010). Altogether the BHC has built 17,000 houses in urban areas, in three categories, high, medium and low rent. Of the three categories, the low income housing is the greatest, however BHC is moving towards catering more for the middle and high income segments, something the organisation has been heavily criticised (Mosha, 2010).

Poverty Alleviation and Housing Programme

The poverty alleviation and housing programme targets people who are unemployed. Government services and builds infrastructure on industrial plots and buy machinery and other inputs for producing building materials. The engaged people are taught how to produce building materials and after training within the programme some move away to find better job opportunities, some establish their own business while some stay within the programme. The profits are the allowances and by making it possible for people to get an income, it is also meant to facilitate the housing situation (Kuaho Mpho, 07-10-2010).

Self Help Housing Agency

Self Help Housing Agency (SHHA) was introduced as a non-conventional shelter strategy, in 1974 to facilitate the provision of affordable housing to first time low-income urban households in which low-income households got plots. As there is a lack of land in urban areas not much land can be allocated through SHHA in these areas. However every time new land is released SHHA gets a percentage. Today, the SHHA programme is not confined only to urban centres and the larger villages, rural SHHA programmes operate throughout Botswana, but in all rural SHHA areas, land is provided by the applicant (through the normal Tribal Land Grant process) i.e. you cannot apply for a SHHA loan if you do not already have a plot (Mosha, 2010). The house improvement loans, which are interest free, have a maximum size of 45000 P. To be eligible for a SHHA loan the person need a monthly income of P 300-3000 and must have built something on the plot already (for tribal land). There is a problem that very few people pay back the loans, although they are interest free. In 2009, 635 loans were granted (Aron Samuel, 07-10-2010).

The Turnkey programme, was established in 2008 as there was a large number of incomplete structures in Botswana at that time. The council engage construction and build the house including sewerage, electricity etc. It is a way for the government to try to target the middle-income group that falls below the requirements for mortgages from commercial banks and Botswana Building Society (BBS). Applicants need to show regular income above 36 400 P per

year, but do not need to be formally employed. In 2009 the Turnkey programme had 916 beneficiaries (Kuahlo Mpho, 07-10-2010).

Government Employee Motor Vehicle Advance Scheme

The government provides bank loans for government employees through the Government Employee Motor Vehicle Advance Scheme (GEMVAS), where the government guaranteed up to 80% of the loan, while the remaining 20% is provided by a financial institution (Mosha, 2010). The payments are managed through Botswana Savings Bank and is eligible to permanent and pensionable civil servants for real property development. In order to be qualified to the scheme, employees must have a minimum net income of P 1200 after loan repayments and deductions (Olesitse Rebecca, 14-10-2010).

Financial institutions

Commercial banks

The commercial bank sector in Botswana consists of eight banks, namely: Standard Chartered Bank of Botswana, Barclay's Bank of Botswana, First National Bank of Botswana, Stanbic Bank, Bank Gaborone, BancABC, Capital Bank Limited and Bank Baroda (Bank of Botswana, 2010a).

Quasi-governmental owned financial institutions

There are a number of quasi-governmental owned financial institutions, including Botswana Building Society (BBS), Botswana Development Cooperation (BDC), Botswana Savings Bank (BSB), National Development Bank (NDB), and Citizens Entrepreneurial Development Agency (CEDA) (von Rudloff, 2007). All have specific development-oriented objectives within the financial sector.

Botswana Building Society

BBS is the only dedicated building society in Botswana. It offers long-term property loans, as well as private and investments products. According to von Rudloff (2007), BBS is probably best in place to assist with the resolution of the low-income housing finance dilemma, as it does not have a minimum housing loans, making it suitable for incremental building. It is also the only housing finance provider that finance project all over the country, although only if land tenure has been converted into common law lease and the maximum loan value is P 200 000. Moreover, government guarantees 25% on all BBS loans, which can be developed and extended to reach the poorest members of society.

Empirical findings

Macroeconomic Conditions

Macroeconomic trends play an important role for the development in the housing finance markets. Macroeconomic stability with a stable output growth and low and stable levels of inflation and interest rates are important factors for a sustained development. Most developing countries have a history of macroeconomic instability with high and volatile interest rates, low growth rates and underdeveloped infrastructure for housing and housing finance markets, as well as underdeveloped and poorly regulated banking and capital markets (Chiquier & Lea 2009). For these reasons, the size of the housing finance systems in many such markets remain relatively small. If countries are productive and can generate employment and income for growing populations at an accelerated rate, they will be able to create and mobilise the savings and investments necessary to finance their basic needs, such as housing and infrastructure services. With realistic policies targeting macroeconomic stability, inflation and nominal interest rates, supported by effective institutions, they will have a chance to meet the growing needs (UN-Habitat, 2005). In this section, Botswana's macroeconomic conditions will be reviewed in order to assess whether there are any factors restraining efficient delivery of housing finance.

Macroeconomic stability

Since independence, the government has built the country's development on basis of prudent macroeconomic management, establishing institutions which have pursued growth-promoting policies with emphasis on openness, macroeconomic stability and recurrent funding (Maipose, 2008). Botswana has historically enjoyed consistent macroeconomic stability and high economic growth rates. There have been no sessions of serious inflation nor prolonged recessions, both of which have characterised the macroeconomic history of many developing countries (Leith, 2005). However there has been a decline in growth in recent years, partly because of a decrease in the rate of mining sector growth. The mining sector slowdown, and the resulting decrease in exports, has caused policy emphasis to focus on economic diversification (Jefferis, n.d.).¹

Contrary to many other developing countries in Africa, Botswana maintained budget surpluses during the 1980s and 1990s. Nonetheless, the country showed budget deficits during several years in the beginning of the last decade, which is showed in figure 4, below. The trend of budget deficits was due to a combination of a slowdown in revenue growth and continued rapid

¹ The Achievement of SADC Macroeconomic, p. 5

expenditure growth (Jefferis n.d.).² This trend turned however in the middle of the decade and the country started to show budget surplus. In all, the macroeconomic development in terms of growth and government revenues and expenditures are quite stable and should not be considered as bottlenecks for the provision of housing finance at this point.

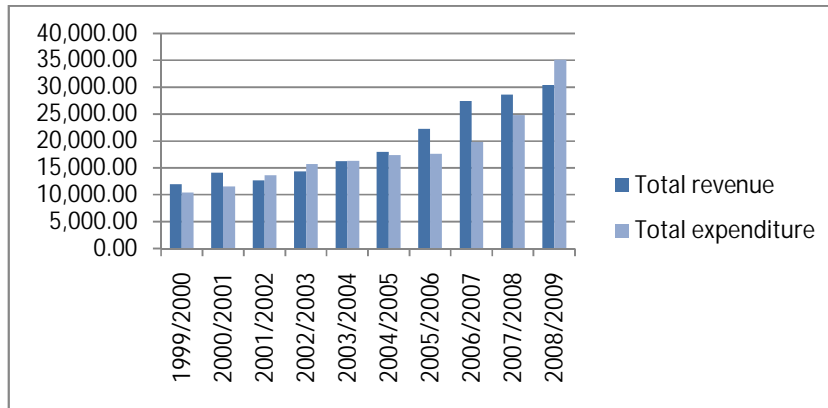


Figure 4. Total Government Revenue and Expenditure (P million). Source: Bank of Botswana (2009).

Inflation

The Consumer Price Index basket in Botswana consists of nearly 50 % imported goods. Of these imported goods, around 80 % come from South Africa. Hence, one of the main influences on Botswana's inflation is the inflation in South Africa. Inflation in Botswana was quite high in the early 1990s, but has generally declined since then. This has partly been assisted by South Africa's relatively tight monetary policy and, since 2002, the appreciation of the rand against major international currencies (Jefferis n.d.).

In the last decade, the inflation rate has been kept below 10 %, with some exceptions, which is showed in figure 5 below. Despite generally remaining on a single digit level, the inflation in Botswana has been higher than the country's largest trading partners, e.g. South Africa. This has led to concerns about its international competitiveness, and has in turn commenced a relatively tight monetary policy (von Rudloff, 2007). The most likely reason for the difficulties encountered in bringing Botswana's inflation down to average international or regional levels is differences in productivity. Although data on productivity is poor, there is some evidence that Botswana has suffered from negative Total Factor Productivity (TFP) growth in recent years. Presuming that other countries have experienced higher, positive productivity growth, the issue

² The Achievement of SADC Macroeconomic, p. 8
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and Policy Issues

of productivity provides a structural explanation for Botswana's inflation persistence. Bringing inflation down will therefore require concerted initiatives to bring about structural change in the economy through improved productivity growth (Jefferis n.d.).

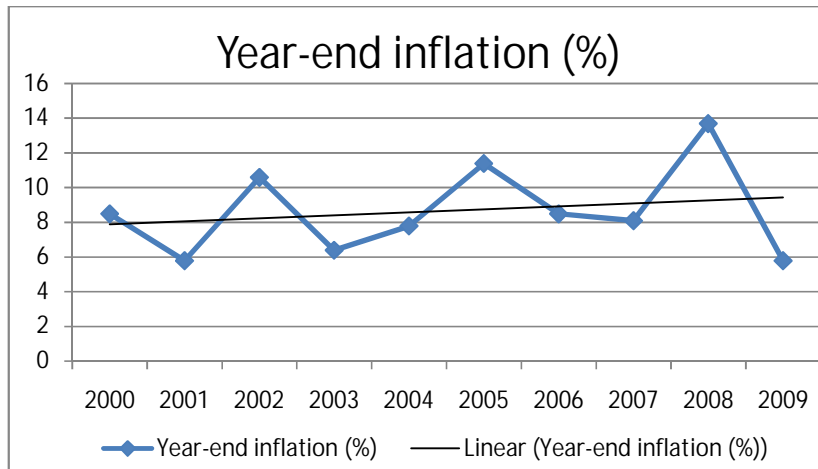


Figure 5. Annual inflation, by source measured in Consumer Price Index. Source: Bank of Botswana (2009)

The Bank of Botswana's (BoB) monetary policy objective is to achieve price stability through a sustainable, low and predictable level of inflation, ranging between 3 to 6 % on medium term. The BoB uses interest rates and open market operations to affect demand conditions and inflationary pressures. This involves the purchase and sale of the Bank of Botswana Certificates (BoBC). The BoBC is an instrument that is regularly auctioned to commercial banks to absorb excess liquidity from the banking system, which could otherwise possibly drive down interest rates below desired levels, creating inflationary pressures. Through the BoBC, the BoB can affect the cost and availability of loanable funds, thus influencing credit demand and savings for households. Besides absorbing liquidity, BoBCs also provide a key signal to the banks about the BoB's interest rate intentions (von Rudloff, 2007). The high and volatile level of inflation contributes to instability in the market and will, if sustained, potentially affect the level of growth in the future. Further, it gives rise to higher and more volatile interest rates, impeding mortgage affordability.

Interest rates

Due to concerns about the level of inflation, interest rates have been kept relatively high in recent years. Between 2000 and 2008, the prime lending rates fluctuated in the range between 15.75% and 16.50%, thus quite stable although relatively high. The high level of the interest rates has for obvious reasons affected the general costs of borrowing and the affordability of bank

loans (von Rudloff, 2007). The high interest rates inevitably affect the provision of housing finance, as mortgage providers set their interest rates after the prime rates. They have disproportionate impact on long-term mortgage finance and make it unaffordable for low income groups. Lenders will be concerned about liquidity risk and may result in unwillingness to offer mortgages or to only offer short maturity loans, as it will be difficult to forecast inflation and interest rates. Hence, Botswana's high and volatile level of inflation and the resulting high interest rates constitute the main bottleneck to the development of housing finance in the context of macroeconomic stability. Even though its macroeconomic stability in terms of growth and government revenues and expenditures are quite stable, the inflation risks creating a negative cycle where decreased access to housing finance leads to less residential investment and slower growth in the overall economy.

Property rights

Botswana is ranked second, only after South Africa, among the 23 southern African countries in the 2010 International Property Rights Index, which implies a high level of both physical and intellectual property rights and their protection for economic well-being (International Property Rights Index, 2010). The constitution prohibits the nationalisation of private property and provides for an independent judiciary, which the government respects in practice (Index of Economic Freedom, 2010). However, its complicated dualistic land tenure system and inefficient land administration decreases tenure security and impede on the possibilities to secure mortgage provision for housing.

Property as collateral

Due to traditions and social norms it is not evident that there is a social return of titling projects, as a formal title in reality does not by definition give a stronger property right than an informal title. Still, the major advantage of a formal titling system is banks attitude towards the usage of land as collateral as they respond quicker to formal tenures and more willingly offer mortgages with the property as collateral as this is a system they recognise. This effect has been noted in southern African countries (Brandão & Feder, 1996). It is descriptive for the case of Botswana as well, as one of the prerequisites from the commercial banks for using properties as collateral in mortgage borrowing, is a formal title on the property. Hence, plots on tribal land are normally not accepted as collateral for mortgages. However, the property right of tribal land under customary law grant can be considered stronger than the property right of state land, as it is perpetual. Nevertheless, state land can be used as collateral (Andreasson Kristin, 16-09-2010).

Some land rights are perpetual while others are terminal after 50-90 years. As stated earlier, only the common law lease (tribal land) and the fixed period state grant (state land) are accepted as collateral. However the terminal nature of current common law leases makes them increasingly unacceptable as collateral by moneylenders as the terminal date approaches, which makes it difficult for leaseholders to secure adequate loans for maintaining or improving the property (Kalabamu, 2000). Still, the terminal nature is not a problem in itself for the fixed period state grants as the lease can be renewed, and so far government has never rejected a renewal (Ferreira Clifford, 14-10-2010). In the report on review of Botswana Land Policy (Ministry of Lands and Housing, 2003) it is recommended that in order to protect the wealth created by investment in land and property on state land, all FPSGs should be renewable if a fee to cover transaction costs and a 10% premium of market price is paid, given that taxes are paid and development requirements are met. Freehold leases are the most secure and preferable tenure (Andreasson Kristin, 16-09-2010).

One regulatory framework

As a consequence of the dualistic land tenure system, the government of Botswana has been appointing commissions and carried out studies to facilitate land administration and development to respond to particular needs with specific tenure innovations (Nkwae, 2008). Many policies have resulted from these commissions, such as, the Tribal Grazing Policy, Agricultural Policy, Tourism Policy, and the National Policy on Land Tenure, all of which addressed issues relating to improvement of delivery of land (Mosha, 2010). Several different policies and a three-tier system with different regulatory framework for each kind of tenure, imply a higher degree of uncertainty, as it is less transparent than a unified system. In the report on review of Botswana National Land Policy (Ministry of Lands and Housing, 2003) it is stated that the establishment of a unified and fair system of land acquisition and compensation applicable to all land and all people with property interests in land must be tackled as a matter of urgency. One of the first principles of an efficient and equitable system for land is that the basic rules for acquiring, holding and disposing of land is transparent, well known and objective in their legal phrasing and operation. To develop such a system one first step would be to recast all three existing land laws – the Tribal Land Act, The State Land Act and the Land Control Act into one new Land Act, divided into three categories dealing with state land, tribal land and land ownership by non-citizens, according to the report on the review of Botswana Land Policy (Ministry of Lands and Housing, 2003).

Land and title registration

According to De Soto (2000), one of the most important things a formal property system does, is to transform assets from a less accessible condition to a more accessible condition. By describing all assets in standard categories, an integrated formal property system enables the comparison of two architecturally different buildings constructed for the same purpose. This allows people to discriminate quickly and inexpensively between similarities and differences in assets without having to deal with each asset as if it were unique. Flexible and efficient availability of cadastral data about properties to various private service providers and government departments brings substantial economic benefits. Information in cadastral and legal land registers is an important infrastructural component with a large capital value as it protects both ownership and transactions. A number of studies show that the economic value of a registered title is large in both urban and rural areas.

Registration of state land

For state land, the plot allocation process in Botswana has been computerized into a system called the Botswana Land Information System (BLIS) and was introduced in 1990. All plots within the system are title surveyed and fully serviced (Mosha, 2010). The system has mainly one function, to process applications for and link those successful to available plots using a multiple waiting list. BLIS was later, in 2001, transferred into the State land Information Management System (SLIMS), which manages all land related data in the following categories; land inventory maintenance, plot application processing, waiting list management, transfer of title etc. (Ministry of Lands and Housing, 2003).

Registration of tribal land

While land records on urban state land are basically satisfactory, the vast majority of titles on rural land are inadequately recorded and many are not recorded at all (Ministry of Lands and Housing, 2003). Due to inadequate land records on land allocations, the land boards still rely on knowledge from the ward heads for information about local land occupation. The land boards also have to undertake expensive and time-consuming site visits. The keeping of records is still not of the required standard and development of a land information system is necessary. The 1993 amendment of the tribal land act enabled citizens to acquire tribal land anywhere without restrictions. This further increased the already existing need for a comprehensive land record system, as people no longer were restricted to apply for plots where they lived (Ministry of Lands and Housing, 2003).

Progress in registration

The Swedish Mapping, Cadastre and Land Registration Authority, Lantmäteriet, is present in Botswana, actively working in cooperation with Ministry of Lands and Housing in Botswana to deal with different problems of land administration in the country. Currently, they are together working on a project called Improvement of Land Administration Procedures, Capacity and Systems (LAPCAS) with the aim to accomplish long-term solutions that in a more effective way deals with questions regarding land administration. The problem is not whether the land is tribal or state land, but rather that tribal land is inaccessible and not registered (Andreasson Kristin, 16-09-2010). The purpose of LAPCAS is not only to create a more transparent register but also to transfer knowledge and skills needed to continuously use the system. The project consists of seven main goals, which are stated as components, each dealing with different problems in land administration (Ministry of Lands and Housing, Botswana, Lantmäteriet, Sweden, 2008);

1. National systems for unique referencing of land parcels and location addresses
2. Improved land administration processes
3. A computerized Deeds Register
4. Procedure and legal support developed systematic adjunction of rights in tribal land
5. An organization that is competent to operate and maintain land administration and planning systems
6. A national spatial data infrastructure developed and implemented in planning and land administration systems
7. Training and study trips, dealing with training needs that are common for several components

With proper land information the land boards would be able to allocate land more efficiently. In urban and peri-urban areas the land boards require land inventory information in order to learn which land remains un-alienated and thus available for allocation to applicants. It is the absence of this information that is the root cause of many of the problems faced by land boards. The absence of proper land information is not only a pressing issue in terms of allocation of tribal land by land boards, but also for tribal land being allocated on the market. This informal market is growing, since land is becoming more valuable, especially in peri-urban areas. It is necessary to initiate an integrated land information system that incorporates all three systems of land tenure; state, tribal and freehold (Ministry of Lands and Housing, 2003).

Land administration

Land administration in developing countries is often performed by institutions that have inadequate technical, administrative, and legal capacity and the processes are often time-consuming and un-transparent. The costs of land adjunctions are often high, titles are often issued with incorrect boundary specifications and important information about the market is not available. Moreover, the enforcement of property rights is not equal and tend to discriminate against the lower income group. Land law should provide easy and transparent access to the land administration system. Tenure insecurity is fundamentally a consequence of inadequate land administration and of a legal framework incapable of determining boundaries and settling disputes (Brandão & Feder, 1996).

The land administration process in Botswana is continuously changing and adjusting. Even though there are inefficiencies of the administration of state land, the major problem on land administration is the inefficiency and un-transparency of the land boards, administrating tribal land (Hinchliffe John, 15-09-2010). Even though there is no country in the region that emphasise the importance of good governance and administration as Botswana, one of the most frequent complaints against land boards is that they allocate land inequitably, that they favour those with influence and who have many cattle (Adams et al. 2003).

The low level of education of land board members, inadequate support facilities, lack of sufficient trained personnel and poor relationship between land boards and the general public has resulted in that land boards and general public lack understanding about the Tribal Land Act . Land Boards have not kept proper records of their allocations. They have often not issued certificates as required nor entered all new allocations and changes of land rights ownership into ledgers (Kalabamu 2000), which lowers the strength in the property right.

When the registration of titles is slow it introduces a degree of uncertainty into land transactions. There are transaction costs from procedural impediments and delays, which have a negative impact on land market efficiency; for example: on state land there are delays of up to three to four months occur in the Deeds registry due to capacity constraints arising from the rapid expansion of demand. On tribal land the delays are even longer as the land boards must determine whether the land has been developed to the satisfaction of the Land Board. When vendors wish to convert customary grant to a common law lease and convert earlier COR into FPSG, delays can be up to two years (Ministry of Lands and Housing 2003).

Accountability

One important aspect of the large potential value in formal property registration is that it makes people accountable, as they become linked to their property and it can be forfeited. On state land both the Department of Lands and the councils are required to take into account the other land holdings that an applicant may have. To do so, they need to be able to access and search all land holding records, which should show the extent, location, use and identity of the right holder. To make such investigations require that land records are comprehensive and in a format that can be easily accessed between the different allocation authorities. This is largely true for state land allocation records. On tribal land citizens have right to four plots, indicating that a register is needed. The absence of such records for tribal land makes this criterion impossible to implement in full. Although applicants for tribal land are required to declare their other land holdings on the application forms in use and land allocations may be forfeited in case of a false declaration, the land boards have no such duty on tribal land and thus under no pressure to keep records (Ministry of Lands and Housing, 2003).

Property market

It is important to establish a functional property market, where the market mechanisms of supply and demand function properly. As demand is quite predictable in most countries, it is on the supply side where most obstacles are found, specifically in the input markets. When housing supply is competitive, the long-run price of housing will be determined primarily by production costs rather than demand. However if the supply market is not competitive, e.g. if new land and new housing are not supplied when demand is increasing, improvements in housing finance merely generate price effects. Countries who have experienced housing finance system expansion due to lower interest rates, while input factors as supply of serviced land have remained stagnant, has experienced negative property market outcome.

In some developing countries, housing problems stem directly from poverty. Bad housing conditions because of low income can only be facilitated through improving the productivity and incomes of the poor. However, many countries which are succeeding in the task of general development, still often find housing conditions lagging. This is mainly because of inefficiencies in their property market's function (Malpezzi, 1999). The latter case exemplifies the property market in Botswana. Even though the country experiences general macroeconomic development, the market mechanism of housing delivery has become skewed due to bottlenecks in the input markets and regulatory environment, especially in and around the urban areas. In

this section, the housing delivery process of Botswana will be reviewed in order to identify possible bottlenecks to a functioning property market.

Release of land

The value of land

The traditional view in Botswana is that land has no value until it has been improved, e.g. developed by building a house. The customary law of Botswana entitles each citizen four tribal land plots, which are free of charge. As a result, tribal land is yet today allocated as a valueless resource although it is indeed very valuable. When land is allocated at below market prices, it distorts housing and land markets and creates an uncertain investment climate as there is no direct market value of land. Although Botswana's land allocation system might have worked in what was a tribal society centuries ago, it does not support the needs of a modern economy (Jefferis Keith, 15-09-2010). The emergence of demand forces with respect land is an inevitable outcome flowing from population growth and urbanisation. Government may choose to adopt a policy position to impede these market forces, i.e. to allocate tribal land for free, the forces of supply and demand will nonetheless prevail (Ministry of Lands and Housing, 2003). The reality is that, regardless of belief or convictions, land has a value depending on location, accessibility, demand, natural characteristics, transferability, zoning, current use and other factors (Kalabamu, 2000). Tribal land plots close to urban centres will inevitably be subject to higher demand pressures. If actions are not being taken, the system will contribute to extraordinary opportunities for all forms of abuse and corruption on the part of allocators and other beneficiaries (Ministry of Lands and Housing, 2003).

The problem in urban areas

The issue of land allocation is particularly pressing in urban and peri-urban areas as Botswana is under process of urbanisation. Moreover, people are becoming increasingly aware of the market value of land and in a strive to forestall future scarcity, many has started to apply for land well in advance of their actual needs. This is especially the case in peri-urban areas and urban villages. Geographically, Gaborone is squeezed in between tribal land areas (east and west) and freehold land (north and south). From being a modest trading centre and base for the government during the colonial era, Gaborone has grown into a large city. There is today no state land available as all state plots in and around Gaborone have been allocated. Hence, any expansion of the city has to either invade on villages on tribal land or absorb freehold land, which must be purchased by government (Aron Samuel, 07-10-2010). Gaborone and the surrounding villages are continuing to be destination for internal immigration. The other cities in Botswana; Francistown, Lobatse

and Kasane-Kzungula face similar expansions. A number of problems arise out of the location and land tenure systems in and around these cities. The major problem is that within one city, there are several land categories and land owners. There is no shortage of land in Botswana, but the cities cannot grow as they are surrounded by tribal and freehold land, which the city councils do not control (Hinchliffe John, 15-09-2010). These juridical landowners have varying and sometimes conflicting interests, plans and programmes as to how and when to develop their land. Although the various settlements under each planning area are deeply interdependent in social and economic terms, they seldom co-operate. Providing land for public utilities, e.g. dams, solid waste disposal sites and sewerage treatment plants, has been particularly problematic (Ministry of Lands and Housing, 2003). The result is that the cities are growing at a rapid pace, while not enough land is released in order to meet the demand (Masalila Ronnie, 13-10-2010).

On state land the current system of allocation of residential plots in urban areas, introduced under the State Land Allocation Policy (SLAP), imply that applicants from all income groups are put on the same waiting list for allocation of serviced plots. As a consequence of the grave shortage of urban land, the system fails to deliver sufficient serviced plots or to achieve equity or efficiency (Ministry of Lands and Housing, 2003). The allocation on tribal land is also problematic due to administrative issues. The land boards allocating tribal land have been and are still heavily criticised for being very insufficient, slow and un-transparent (Jefferis Keith, 15-09-2010). The integrity of land administration system on tribal land in the crowded peri-urban areas has been especially scrutinised. The increasing demand for land and the rapid urbanisation that is taking place require high level administrative and technical competence. For example, the failure to provide registers for all existing customary land rights has continued to severely undermine the land allocation process. At their root, many of the problems experienced in peri-urban areas are due to lack of information on the nature and extent of prior land allocations. In the peri-urban areas, land boards have had difficulties identifying the genuinely needy among the numerous applicants (Kalabamu, 2000).

Housing the low-income group

In Botswana, commercial and industrial land is allocated at market prices. Residential plots on state land are transferred at a price based on cost recovery for first time buyers, affordable prices for low income groups and market prices for those seeking plots for investment (Dumba Dixon, 17-09-2010). Purchases are based on the principle of cross subsidy, where the high income group subsidises the low income groups by paying a higher price. Hence, the middle income group is the only group paying the cost recovery price (Mosha A.C., 15-10-2010). Given this system of

cross subsidising, prices fall below market value and create long waiting lists for plots. There is consensus that the eligibility criteria for plot allocation are overly generous given the current severe shortage of serviced plots and the high degree of state subsidy involved (Ministry of Lands and Housing, 2003). The slow and inefficient process of land allocation is a severe supply bottleneck in the property market of Botswana both on tribal land and state land.

The Review of Botswana National Land Policy (Ministry of Lands and Housing, 2003) suggests that government should focus its financial and administrative resources on assisting the poor to obtain land and shelter. Government should continue to acquire, service and distribute land for housing poor. Upper and middle-income groups should satisfy their land needs through the operation of the market. However, government should use the planning system to make land available for these income groups. This would facilitate the release of land as it would put less pressure on the administrative bodies.

Improvements

In Botswana, several voices were raised concerning allocation of land, saying that the current system is not appropriate society and that the market mechanism should play a larger role (Muvirimi Cathrine 14-10-2010, Jefferis Keith 15-09-2010, Nelson Adele 16-09-2010). One of the main bottlenecks in land provision is the fact that each citizen has right to four plots on tribal land for free. In the report on the review of Botswana Land Policy (Ministry of Lands and Housing, 2003) three changes concerning release of land are suggested. Firstly, to limit the entitlement of citizens to apply for any number of residential plots to one customary grant of a residential plot. Applicants wanting more than one residential plot should acquire them in the market. The current system distorts the mechanism of supply and demand of land and housing markets, leading to development of informal markets. Moreover, the increasing applications cannot be handled by the land boards, who are experiencing large administration and management difficulties. Second of all, the application fee should be increased, Today the application fee is P 30, by increasing it, demand would be regulated and the administrative costs covered.

Many plots remain undeveloped because poor households who have received plots do not have possibility to finance development. Therefore, the last suggestion is that land boards should be able to repossess abandoned and unused land. This would facilitate increased release of land. Relating to undeveloped plots, suggestions are also made that restrictions on selling undeveloped residential plots should be removed, to bring more transactions within the legal framework. Today only developed tribal land can be sold, making the land market inefficient. Removing this

restriction would also increase tenure security as no third party would be involved in the transaction (Jefferis Keith, 15-09-2010).

Lack of serviced land

One of the main problem regarding housing delivery in Botswana is the lack of serviced land. There is now a serious crisis in the urban and peri-urban areas. Failures to service sufficient land to meet demand or to distribute to those in need have fuelled the present crisis. There is demand for much more land to be serviced and made available to those who will use it efficiently (Ministry of Land and Housing, 2003). As there is no increased release of serviced land in urban areas, housing outputs have not responded to the increasing demand, causing an inefficient property market (World Bank, 1993).

In order to allocated land, a certain level of public service is needed, what is called bulk services. This includes roads, water, electricity and sewerage. As to the physical infrastructure, the private sector is playing an increasing role in Botswana, as there is a pressing need for infrastructure improvement. The investment necessary for better roads, housing, functioning railways and supplies of drinking water is often considerable and requires long-term finance. The government has planning areas where they provide these services, though complaints are made that it is not sufficient and that development is too slow.

In urban areas, land for development is available in two forms: fully serviced land (under the Accelerated Land Servicing Programme that was started in 1987) for all land uses or un-serviced land that is normally allocated to parastatals and private companies for their own development. Land that is not serviced in urban areas are not allowed to be developed. Hence, no informal settlements or squatter areas can develop as control is very strict and any violations are dealt with an iron hand. On the other hand, in rural areas land is mostly allocated un-serviced or in the case of major villages, being slowly serviced. In order to implement the urban development policy nationwide and to avoid an urban bias to development, the government adopted and implemented the National Settlement Policy (Mosha, 2010).

Improvements

The report on the review of Botswana National Land Policy (Ministry of Land and Housing, 2003) recommends that no land within statutory planning areas should be allocated before it is planned and serviced, in order to avoid the high cost of servicing land that has not been adequately planned with proper provision of servicing. It also suggest land pooling as a solution to increase serviced land. Land pooling involves assembling small parcels of land held by various

land-holders into one large parcel for the purpose of providing infrastructure services (roads, water, sewerage, electricity etc.) in a planned manner and returning part of the serviced and reconstituted plots to the original holders.

As stated above, the government can allocate land to private sector developers for servicing, who can in turn resale to persons wanting to acquire residential land in the high income and middle-income categories (Ministry of Land and Housing, 2003). This is what is called a Private-Public-Partnership (PPP). Ministry of Land and Housing is positive towards these kind of co-operations and so far one such project has been carried out in Botswana together with Time projects, one of the major private developers in Botswana. Private developers are likewise positive towards PPPs for servicing land in urban areas. However so far, it is not relevant for the rural areas as it does not exist a market or the high and middle-income segments (Ferreira Clifford, 14-10-2010).

Materials

Material is one of the inputs necessary for the housing finance market. According to Hegde (Hegde Sandesh, 14-10-2010) at SCB, there has been an increase in housing prices of approximately 30% which is mainly due to increasing material costs and construction costs. One problem is that much material is being imported, which have been increasing in cost. Makgato (Makgato Kelebogile, 16-09-2010) at FNB agrees and states that if cheaper building materials and methods would be used, the mortgages would also be more affordable.

Overregulation of land

Studies show that most developing countries' formal housing markets are overregulated (De Soto, 2000). With the various tenure systems permitted to operate within the same geographical area, land developers, owners, the public and, to some extent, land administrators are inherently confused about which tenure is applicable where and when. In this sense, the risk and danger of overregulating the market cannot be understated (Ministry of Lands and Housing, 2003) as housing becomes unaffordable due to the increasing costs caused by regulations. This is the case in Botswana where overregulation has resulted in that housing and land have not been supplied adequately.

Housing standards

Housing standards are controlled in the Building Control Act 1962 (Ministry of Lands and Housing, 2003). One of the main challenges that is faced by the housing sector in Botswana is the unaffordability due to adaption of "modern" infrastructure and building standards (Mosha, 2010). The implementation of housing standards in Botswana had the aim to improve

environmental and health conditions in housing areas and work places (Ministry of Land and Housing, 2003). However, it has also resulted in increasing housing costs.

Many of the urban villages have become designated Planning Areas and in these areas, houses have to comply with the Development Control Code and the Building Control Regulations. The National Development Plan (NDP) has adopted several strategies with regards to the housing standards. One is to review housing and building standards to increase affordability; for example by adopting core and cluster housing as well as promoting increased use of local building materials (Ministry of Lands and Housing, 2003). A number of interventions from the government are needed to facilitate the provision of housing to poor. Key amongst these is relaxation of regulatory standards and building codes for the urban poor. Simpler, more affordable and appropriate health and safety regulations are required and “first-world” building standards must be recognised as counter-productive for providing affordable housing to the urban poor. Makgato (Makgato Kelebogile, 16-09-2010) at FNB points out that if cheaper building materials would be used it would also make mortgages cheaper. There is a great need to develop best practice, government cannot afford to continue to insist on standards that they cannot themselves provide (Ministry of Lands and Housing, 2003).

Plot size

Besides building and development standards, the plot sizes in Botswana are also regulated. Studies have shown that plot sizes are very large in comparison with neighbouring countries. With the objective to reduce cost of infrastructure, the National Development Plan intend to optimise plot sizes and change the design of site layouts and engineering criteria. The problem has been identified by SHHA as well, where the minimum plot size has increased continuously over the last decades. The minimum plot size and the policy of up-grading standards does not reflect the needs of a majority of the poor, nor permit the option of incremental improvement in standards over time as households' ability to afford them increases (Ministry of Lands and Housing, 2003).

Informal market

In contradiction to the policy of free land allocation in tribal areas, a market has developed for land in those areas that border the city boundaries. It is largely an illegal market. Fronting has been defined as the use, for a fee or for free, of a poorer relative or acquaintance in the application for a plot that is in reality developed by the “real” owner and later “officially” transferred to him or her. It is against the law to transfer plots that have not been developed, which is one of the main reasons to why this illegal market exists (Ministry of Lands and

Housing, 2003). It is estimated that fronting accounts for about 10% of all land right acquisitions in self-help housing areas (Kalabamu, 2000). Besides the regulation around plot transfers, there is also a problem in that different groups pay different prices. Fronting also exists because of the differential prices at which land is made available to different classes and groups of individuals and because of a restrictions to selling undeveloped land. Illegal transfers take place in the peri-urban areas. Undeveloped plots are routinely advertise in the weekly press and offered for sale by estate agents. Citizens who have been allocated plots at less than market price (on state or tribal land) not unnaturally wish to profit by transacting them in the market place (Ministry of Lands and Housing, 2003).

Self-help housing

A number of low-cost housing initiatives have been initiated by the government. Self-help housing has been the main trust and is today the primary governmental programme targeting the low-income group to access housing in urban areas. Since inception of the SHHA scheme in Botswana in the 1970's, the minimum standards (initially earth roads, standpipes and pit latrine only) have increased to the point where most poor households are effectively excluded. Under the current scheme, residential plots (375 m²) include made-up roads, drains, water, sewerage and electricity, for which payment must be made. The relatively large minimum size per plot also significantly increase costs and fewer plots are produced per unit area (Ministry of Lands and Housing, 2003). Traditional construction using locally available materials is therefore no longer possible. In SHHA areas, SHHA inspectors have been known to impose requirements even more stringent than required by the legislation, thereby further increasing building costs (von Rudloff, 2007).

Mortgage market infrastructure

In order to develop a functional housing finance sector, there must be an efficient mortgage market infrastructure, where there is a clear title and collateral registration system for mortgage provision and processes for risk management and foreclosure is defined. In this section, these procedures will be reviewed for the housing finance providers in Botswana. The financial system in Botswana has grown and diversified over the past decade, primarily due to the substantial accumulation of national finance resources. An array of financial institutions exist, with banks and pension funds being the most important segments by asset size (IMF-World Bank, 2008). There has been a shift in the structure of bank lending to households, with property loans taking an increasing share. As recently as 2002, banks lent out twice as much to households for purchase of motor vehicles as residential property. However, by the end of 2006, the

proportions were reversed. Still, the development remains very slow. Due to the strict risk mitigation principles, only higher and middle income groups have access to conventional housing finance through the commercial banks (von Rudloff, 2007).

Land titling and collateral

In many developing countries, mortgage finance is held up by lack of formal registration systems for property. It is recognised that problems of titles have made foreclosure difficult and deterred lending (UN-Habitat, 2005). Uncertainties and judicial bias weaken the collateral value versus debt and long delays in foreclosure processes discourage creditors from making more and longer housing loans. Hence, the development of mortgage markets will depend on the effectiveness of procedures of mortgage enforcement (Chiquier & Lea, 2005).

On state land in Botswana, developed property is a collateral in itself. However on tribal land, all commercial banks require a common law lease, i.e. a title deed and a time frame for development of the plot in order to accept the house as collateral for mortgage. As most people in rural areas have refrained from converting to a common law lease, most of them cannot use their property for collateral (Tema Boiki 14-09-2010; Hegde Sandesh 14-10-2010; Matlapeng John 13-09-2010). As discussed previously, there is a distinct hesitancy in land registration in Botswana. Tribal land that has been held for generations have on many occasions proved to be forfeited because of owners' reluctance to register title deeds. The hesitation among the lower income group to transfer customary land rights to common law lease is both due to lack of knowledge, but also as they cannot afford the surveying needed for the conversion (Mpoloka Dizzy, 06-10-2010). Further impediments include the rigorous administration process it requires and unawareness to the benefits of having transferable title (von Rudloff, 2007).

Voices have been raised in favour of an active intervention to use the pension reserves to bear the question of collateral for lower income groups. Botswana has enormous capital reserves of Pension and Provident Funds, amounting P 32.4 billion in the end of 2009. Today, pension savers can access 1/3 of their pension in cash when they retire. Proposals have been made to change the regulations to let pension savers use this sum as collateral for mortgage (Reetsang Baboloki, 15-10-2010). This would be an alternative for lower income groups in rural areas, whom cannot qualify for mortgages today (O'Reilly Thelma, 13-09-2010). However, this proposal is a controversial one, which is not supported by the commercial banks due to the risks it involves. As many banks see it, pensions funds are supposed to be used after retirement (Tema Boiki 14-09-2010; Ketshotseng Bame 14-10-2010).

Risk management

Credit risk management takes place through both underwriting and servicing of a mortgage. Most housing finance providers in Botswana have similar risk management processes, though differing somewhat in the minimum requirements of the risk measures as quasi-governmental agencies generally serve a different purpose than those of the profit-oriented commercial banks. Generally, banks look at: if the applicant has a formal employment, proof of income, copy of title deed on tribal land, valuation report on the house, credit insurance, statement of assets and liabilities, proof of marital status and identity documents (Ketshotseng Bame 14-10-2010; Tema Boiki 14-09-2010; Matlapeng John 13-10-2010; O'Reilly Thelma, 13-09-2010).

Mortgage lenders underwrite credit risk in terms of (1) ability and willingness of the borrower to repay the loan, (2) the value of the collateral relative to the loan amount and (3) the lender's ability to efficiently enforce the mortgage lien in case of default.

Ability to repay

In terms of ability to repay, the commercial banks have a debt-to-income ratio of 40-45 %, which is much higher than that of the quasi-government agencies of around 25% rate (Ketshotseng Bame 14-10-2010; Tema Boiki 14-09-2010; Matlapeng John 13-10-2010; O'Reilly Thelma, 13-09-2010). In the past, acceptable ratios in industrialised countries ranged between 25 and 35 %, though there has been an upward shift in recent years. As the quasi-government agencies also cater for middle and lower income groups, they have less conservative mortgage requirements, such as a lower debt-to-income ratio. The maximum repayment period for commercial banks varies between 15 to 25 years, while it is 20 years for NDB and 30 years for BBS. Further, BBS sets its mortgage interest rate from 10.70 %, while BBS and the commercial banks set their mortgage rates based on the prime lending rate (Ketshotseng Bame 14-10-2010; Tema Boiki 14-09-2010; Matlapeng John 13-10-2010; O'Reilly Thelma, 13-09-2010). Prime lending rate fluctuated between 15.75% and 16.50% between 2000 and 2008 (Bank of Botswana, 2009).

Below is an illustration of the average loan conditions of a commercial bank. The figures below are calculated over a 20 year repayment period, with debt-to-income ratio of 40% and interest rate of 16%.

Net monthly income	4000	5000	6000	7000	8000	9000	10000
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Maximum loan value	115000	143755	172500	201250	230000	258760	287500
Monthly instalment	1600	2000	2400	2800	3200	3600	4000

Fig 6: Housing loan affordability. Source: von Rudloff (2007)

An average salary in Botswana is about P 4000, which would be roughly translated into a P 115 000 mortgage. Such a mortgage is only enough to erect a basic structure with minimal finishes, fittings and amendments. Hence, it would not be enough to purchase a complete house. The houses that are built by BHC costs approximately P 300 000 to 400 000. To be granted a mortgage for such a house, a monthly income of minimum P 10 000 would be required (Makgato Kelebogile, 16-09-2010). Even if commercial banks set their minimum monthly income requirement according to the average monthly income of P 4000, it would not be sufficient to a mortgage large enough for purchasing a house. This is due to other more conservative lending requirements, e.g. high interest rates (Setoboli Amutshilani , 08-10-2010). Most mortgages offered by BBS are of smaller amounts that only covers incremental building, interior design or renovations (O'Reilly Thelma, 13-09-2010). Most people build their houses incrementally in Botswana, with many small loans spread out over time, as a way of managing finance their housing without access to mortgages. At commercial banks, applicants from rural areas without title deeds take personal loans for incremental building, interior design or renovations. These interest rates are much higher than that of mortgages, making lending even more expensive than taking a mortgage loan (Nelson Adele, 16-09-2010).

Collateral relative loan value

The amount of equity the borrower puts into the property is also an important factor, reflecting willingness to pay the mortgage. Hence, one of the simplest ways to manage mortgage credit risk is to set a maximum acceptable LTV amount. Further, the less certain lenders are on house price trends or the legal support for enforcing the mortgage lien, the less likely are they to set a high LTV. Accurate assessments of the value of the real estate are one of the most crucial support functions in mortgage lending (Chiquier & Lea, 2009). LTV ratios in Botswana are set at 90 % for commercial banks and 100% for quasi-government organisations. Nonetheless, the majority of the population in Botswana lacks enough funding to provide the 10% deposit as demanded by commercial banks. Hence, most people will take a personal loan with higher interest rate to finance the deposit, which makes the lending even more expensive (Matlapeng John 13-10-2010).

Further, the lack of standardised valuations is constraining the effective participation of financial institutions in housing finance. Today, the banks outsource the appraisal to private companies and valuation of the same house can vary 30-35 %. As the banks are guided by the valuation and set their mortgage thereafter, the loans often fall short of the required amount. Hence, even if the LTV ratio is set to 90 %, it may not be sufficient to purchase a house due to the undervaluation in the first place. There is today no standardised valuation index in Botswana, which is an important issue that needs to be addressed. As the precision of the valuation of the house is key to determining an accurate LTV, it is crucial that an appraisal index should be commenced. In order to mitigate risk, most banks will use the private appraisal companies which are known to give lower valuations. It is particularly difficult to value property in rural areas, which is why the banks who provide mortgages to rural areas also put a lower LTV ratio on those loans (Hegde Sandesh, 14-10-2010).

Foreclosure

Past research shows that banks provide a more and larger supply of mortgages at low interest rates in countries with shorter and more dependable foreclosure processes (Chiquier & Lea, 2009). In terms of foreclosure, all housing finance providers in Botswana have clearly defined processes in case of default. According to NDB, borrowers do default but seldom to the point of legal repercussions, which is the general trend for all commercial banks. This is likely due to the fact that most banks generally only provide mortgages to high income groups in urban areas, which have minimum risk of default (Matlapeng John, 13-10-2010).

The commercial banks have in the past experienced major problems with repossessions in rural areas, as such properties have limited saleability. In a forced sale situation, rural properties seldom even realise the construction cost. This is primarily because only rural tribes would have an interest in residing in a rural village, and almost all would already have access to their own free piece of land through tribal land grants, thus already have a house of their own. As a result, most commercial banks have limited the areas they will finance to towns, cities and a few urban villages (von Rudloff, 2007). For example, SCB does not provide loans to areas more than 40 km from Gaborone. As mostly lower income groups live in rural areas, they will inevitably become excluded from housing finance. In 2009, FNB allocated 236 loans to urban areas, 14 loans to semi-urban areas and no loans to rural areas (Hegde Sandesh, 14-10-2010). BBS is today the only agency which is prepared to finance housing in both rural and urban areas (O'Reilly Thelma, 13-09-2010).

It is evident that banks in general in Botswana are not down-scaling if they are not supported by government, as they are profit-oriented. At the same time, government has asked all banks how they should target low-income groups. The question is how could the banks and government share the risk (Makgato Kelebogile, 16-09-2010)? There are regularly meetings between Department of Housing and the commercial banks for discussing what a cooperation could look like. Increasing the percentage of the mortgage government secures is one possible solution (Nkwe Dithuto, 08-10-2010).

Funding through financial intermediaries

In order to develop a housing finance market, there needs to be adequate sources of funding from lenders to borrowers. Though the traditional funding provision has come directly from primary mortgage institutions, there has been a shift towards capital market funding in the form of secondary institutions in many parts of the industrialised world. In a primary mortgage market, lenders will face a great risk when committing long term loans with short term finance. In particular, credit risk is difficult to manage in markets with weak legal foundations for collateralised lending and the relatively high cost of making smaller loans, as the case in many developing countries. Generally in these markets, lenders minimise such risks by only lending a relatively small proportion of their funds to high income households (UN-Habitat, 2005).

The majority of poor urban households can only build their houses incrementally, when financial resources become available. Land purchase, service installation and upgrading, housing construction and expansion are hence made separately. Formal housing finance companies have shown resistance to lending to incremental housing due to the risks associated with the building processes and the uncertainty of the house value and difficulties with mortgage valuation. This has resulted in development of micro finance institutions lending to low-income shelter development projects (UN-Habitat, 2005).

However, as general financial liberalisation proceeds, housing finance systems will become more integrated with financial systems and capital markets. Institutions will be able to use broader capital markets as sources of funds through the secondary mortgage market, as the capital markets are better managing the risk of long term funding (Malpezzi, 1999). Access to long term funds mobilised by the secondary mortgage market can reduce the liquidity risk of making long term housing loans and lengthen the maturity of loans, thus improving affordability (Chiquier & Lea 2009). In this section, the funding processes of the housing finance providers in Botswana will be reviewed.

Financial access

Financial access is highly topical in Botswana, reflecting a number of extensive concerns about the lack of a complete coverage of the population by the financial sector. This relates to the dominance by the commercial banks, which focus their products, services and facilities on certain segments of the population, primarily the waged, urban employees. Public concern has focused on both income and geographical-related exclusion. Even though the development of the banking sector in recent years has led to new banks and branches being established in some urban areas, as well as new products and services, the number of branches in rural areas has decreased (Jefferis, 2007). Only about 45 % of the population lives in settlements with permanent banking presence, and many large population centres have no local access to banking services. According to the FinScope 2004 survey, about access to financial services in Botswana, 54 % of the 1200 respondents³ were financially served, i.e. used financial services of some kind. Of these segment, 49 % used financial services provided by the formal sector. Among these services, credit or loan products constituted 21 % (von Rudloff, 2007).

Besides the geographical limitations, there are further concerns about exclusion of lower income or unwaged groups' access to banking services, due to selection criteria and product design. The FinScope 2004 survey showed a significantly higher usage of banking products among well educated, higher income earners and those in full-time employment (Jefferis, 2007). For a long time, the foreign commercial banks used quite conservative lending policies based on criteria and standards set in their home offices (Ministry of Lands and Housing, 2003). Though some conditions have relaxed, e.g. the deposit requirements have steadily declined from 25 % fifteen years ago to 10 % today, the selection criteria and product design of most commercial banks are still skewed towards high income borrowers. As a result, lower income groups and applicants from rural or peri-urban areas are effectively excluded from mortgage finance. Essentially, the structuring of banking products and services reflect a belief that there is little or no profit to be made from serving these applicant groups. In order to provide accessibility to funding for more income segments in more widespread geographical areas, mortgage contracts need to be redesigned to eliminate the financing constraints that prevail today (von Rudloff, 2007).

Primary mortgage market

Despite the exclusion of many population segments to access mortgage finance, the primary mortgage market is very vibrant in Botswana, with the commercial banks being the only deposit taking institutions (Hegde Sandesh, 14-10-2010). The commercial banks are highly profitable and

³ N_{Urban}= 391, N_{Rural}=809

returns on assets and equity are high by world standards (Jefferis, 2007). Over the last decade, profits have grown much faster than GDP. The banks' portfolios have gradually been changing in favour of personal loans, mortgage loans and investment into BoBC, as many other segments (e.g. commercial loans) have started to reach the point of market saturation (IMF- World Bank, 2008). Hence, many banks are trying to aggressively grow their mortgage books and expand their market shares in the primary mortgage market (Selotate Lesogo, 07-10-2010).

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Total deposits	6 912.3	9233.5	8982.9	10574.2	11875.9	13230.6	23112.2	30455.5	37280.3	37616.6
Outstanding loans total	2429.6	2947.9	3560.8	3843.3	4866.0	5320.4	6206.7	8031.2	9755.4	11426.5
Outstanding loan property (% of total loans)	417.4 (17.2%)	481.5 (16.3%)	555.0 (15.6%)	766.2 (19.9%)	1051.6 (21.6%)	1197.5 (22.5%)	1467.4 (23.6%)	1558.2 (19.4%)	2069.2 (21.2%)	2543.3 (22.3%)
Liquid assets	1842.1	2612.8	2187.6	2547.4	3231.0	4638.6	13751.2	17063.4	18794.1	17405.2
Bank of Botswana Certificates (% of total liquid assets)	1241.1 (67.4%)	1770.1 (67.7 %)	1622.4 (74.2 %)	2028.1 (79.6%)	2543.2 (78.7%)	4010.9 (86.5 %)	13212.9 (77.4 %)	16053.1 (94.1%)	16908.6 (90.0 %)	14887.7 (85.5%)

Table 1. Statistics for Commercial Banks (P million). Source: Bank of Botswana (2009)

As the figures demonstrate, the commercial banks have been highly profitable with significant excess of deposits over loans. The high return has been sustained over a number of years, in great part supported by the relatively high interest rates, as well as rapidly growing demand and lack of competition (von Rudloff, 2007). The banking system's persistently high profitability is one of the perennially controversial issues, especially given concerns about the level of bank charges and access issues, which excludes a majority of the population from financial access. Even though the licensing regulations are subject to prudential control and permit new entrants, competition has nevertheless been inadequate. Therefore, one of the main barriers to entry, and hence to more competition, may simply be the small market size, that the market in Botswana is not big enough to accommodate new full-service banks (Jefferis, 2007).

The BoB uses interest rates and open market operations to reach its monetary policy objective of a sustainable, low and predictable level of inflation. Through purchase and sale of BoBC, the

BoB can absorb excess liquidity from the commercial banks and affect the cost and availability of loanable funds on the market, thus managing the inflationary pressures in the economy (Bank of Botswana, 2010b). Hence, changes in the stock and pricing of BoBCs are one of the biggest factors determining the behaviour of all financial institutions and financial prices in the banking system (IMF-World Bank, 2008). The BoB purchases and sells BoBCs to commercial banks in order to absorb excess liquidity from the banking system, which could otherwise create inflationary pressures. The banks have had an easy, secure and relatively high-yielding investment instrument in the BoBCs (von Rudloff, 2007).

The coexistence of abundant liquidity and high policy interest rates is a key challenge, as it has resulted in high interest rates on credit and potentially allocation distortions, discouraging productive investment and given commercial banks spectacularly profitable returns (IMF-World Bank, 2008). A high level of excess liquidity should in theory mean that the commercial banks have considerable capacity to increase lending where opportunities arise. Thus, the expansion of housing finance provision is at this stage not limited by the availability of financial resources within the bank system (von Rudloff, 2007). However, the commercial banks have few incentives to increase their lending opportunities, as these cannot provide a higher yielding investment return than what they receive from the secured BoBCs. Hence, the effectiveness of BoBCs as the main monetary policy instrument is questionable. To date, the BoB has persistently pursued its monetary policy stability objective, although it continues to face challenges resulting from the BoBCs and excess liquidity (IMF-World Bank, 2008).

Secondary mortgage market

In many developing countries, a frequently expressed reluctance of primary financial institutions to provide housing loans to lower income groups is the lack of long term funds, as well as the risks associated with maturity mismatch. A secondary mortgage market would help deal with these holdups and help lenders efficiently mobilise domestic savings for housing. Hence, there have been numerous attempts to develop secondary mortgage markets in many developing countries. Despite the strong appeal of financing housing through the capital markets, there are significant barriers to development of mortgage securities in many developing countries. Their success depends on many factors, starting with a proper legal and regulatory framework and liberalised financial sector, as well as a developed primary mortgage market (Chiquier & Lea, 2009).

Despite having a relatively mature financial market and stable regulatory environment, there have been no initiatives to develop a secondary mortgage market in Botswana. Today, Botswana has

large pools of pension funds which cannot be used for collateral nor invested in capital markets. If a secondary market was to develop, institutional investors with long term liabilities, e.g. pension funds, could become important new sources of funds for housing. The resulting increased liquidity would help lengthen the maturity of loans, thus reduce the risk for originators and their required risk premium. Increase in the flow of funds would further decrease the relative cost of mortgage finance and improve accessibility to finance by larger parts of the population. The ability to dispose of an asset within a reasonable time and value is a service that capital markets can provide, as opposed to banking systems. Institutional investors have the expertise necessary to manage the complex skills associated with housing finance and can manage the risk more effectively than short-funded depository institutions. Hence, an operational secondary market can improve housing affordability, increase the supply of funds to the housing sector and better allocate the inherent risks in housing finance (Chiquier & Lea, 2009).

However, as previously discussed, the commercial banks in Botswana have excess liquidity and are highly profitable. At this point, the main hold-up to expanding lending opportunities to lower income groups is not lack of financial resources. Instead, the root of the problem is lack of competition in the primary mortgage market and the level and volatility of inflation and interest rates. The relative small size of the housing finance market in Botswana has resulted in minimal competition between the commercial banks. Further, the volatile inflation rate and high interest rates speak against a secondary mortgage market. To develop a secondary market, interest rates on the mortgages must be market determined and provide investors with a positive, real, risk-adjusted rate of return. Consequently, the mortgage rate must be sufficient to cover the investor's marginal funding cost, the risks of mortgage investment and the administrative cost of servicing the mortgages. Further, the mortgage market must be at a sufficient stage of development to produce a significant volume of loans to justify the up-front costs of developing the secondary market infrastructure (Lea, 2000). Though the primary market is relatively developed, its small size and narrow customer reach makes it difficult to reach the necessary economies of scale to cover the high costs of setting up a secondary market. Hence, the prospects of a secondary market do not pose as an attractive alternative investment option for the commercial banks in Botswana (Jefferis Keith, 15-09-2010). It is unlikely that any commercial bank will consider setting up a secondary mortgage market in order to expand to other customer segments, until the middle and upper segment have reached maturity (Dhliwayo Bangidza, 07-10-2010).

In many developing countries, housing microfinance institutions is an alternative for mortgage provision to lower income groups. However, there are toady no conventional microfinance institutions in Botswana. The micro lending companies which do exist only provide short term loans at very high interest rates. There are no mechanism in this sector for providing medium to long term loans for housing (Jefferis Keith, 15-09-2010).

Discussion

Bottlenecks

Generally, the level of inflation in Botswana has been relatively high in comparison to its largest trading partners, which could be explained by poor productivity growth. Concerns about inflation have caused the BoB to keep interest rates high in recent years. The high interest rates, in combination with a growing demand and lack of competition in the banking system, have provided the banks with persistently high profits. As the banks' growing excess in liquidity risks creating inflationary pressures in the economy, the BoB has increasingly auctioned BoBCs to absorb the excess. The easy, secure and relatively high-yielding investment instrument in the BoBCs has thus added to the already profitable returns of the banks. However, the increasing profits have not resulted in extended mortgages to more income groups in larger geographical areas. The high lending rates, in combination with other conservative risk management measures have excluded a majority of the population from mortgage lending, as the majority of the population has a modest income. The main barrier to increasing the competition in the sector is the small size of the market in Botswana. The development of a secondary mortgage market could provide more efficiently mobilised funds for larger segments of the population. The level of inflation in combination with the small size and lack of competition in the primary market, are the main hindrances to such a development in Botswana. In all, looking at the possibilities to increase mortgage finance to more parts of the population, the main bottlenecks include the high level of inflation and the structure of the banking sector in Botswana.

The dualistic system of statutory law and customary law and the three-tier land tenure systems have implications both for the possibility of collateral and the supply of land and housing. The regulatory framework consists of a disarray of various rules and regulations, creating high degree of uncertainty and inefficiency. The largest issues are found on tribal land. Few people in rural areas have converted the customary law grant into a common law lease, thus excluding them from using the land as collateral. The inefficiencies of land boards in the land allocation, titling and registration process further impede efficient administration of tribal land. Additionally, the

fact that tribal land has no value until it is developed distorts the supply and demand mechanism in the property market. Moreover, the dualistic land tenure system of statutory law on state land and customary law on tribal land hinders cities' possibility to grow, which distorts the supply and demand forces further. Additional impediments to supply of land and housing include lack of serviced land, the principle of cross-subsidisation, the increasing costs of material and overregulation of housing standards and plot sizes. All these bottlenecks have caused supply to be inelastic to demand and resulted in an inefficient property market, which does not respond to the forces of supply and demand.

The role of government

It is evident that there are many bottlenecks to the developments of housing finance in Botswana and possible solutions have been discussed in conjunction to the bottlenecks. In this section, we will instead focus on the government's role in facilitating market development. As upper income groups can obtain land and housing through the market in Botswana, the government has shifted focus to facilitate, acquire and distribute land to meet the housing needs of low and middle income groups. Traditionally, the government has been a provider of land and housing, both in terms of financing and production. In spite of these efforts, the land and housing finance problem have not alleviated in Botswana, which raises the question whether these resources have been efficiently and equitably allocated. Rather than direct provision through government entities, the appropriate role of government intervention should be to facilitate the functioning of land, housing and housing finance markets.

From the empirical findings, it is evident that the issue of land is of vital concern for the development of housing finance in Botswana. When discussing land, one cannot forget the aspect of culture, as it is intrinsically part of indigenous land and shelter. Traditional shelter has grown out of social, cultural and economic influences. However, urbanisation has created and promoted environments which do not naturally accommodate these traditional lifestyles. The concept of living in block of flats is for example new in Botswana, where many reject the idea of sharing domestic space with strangers. The large minimum size of plots is another example of cultural influence which creates holdups in urban areas. We understand that culture is a reflection of Botswana's indigenous history and has dynamic relevance to peoples' lives. Nevertheless, its implications does not support the development of a modern, urbanising Botswana. The distinction between tribal and state land hampers cities' possibilities to grow, and the different rights associated with each type of land affects the possibility for collateral. In this sense, the government should focus on facilitating a clearer regulatory framework for land

tenure. In order to further facilitate the land and housing delivery process, government should initiate participation of private stakeholders, e.g. private developers and land servicers, building societies, commercial banks, estate agents and non-government organisations.

In terms of mortgage finance, only higher income groups have access today. Currently, lower income groups are receiving residential plots together with building materials loans at interest free rates from the government via the SHHA program. The efficiency of such government programs has however been questioned. Instead of direct provision, the government should facilitate, acquire and distribute land to meet the housing needs of low and middle income groups. We believe that the initiative by the government to foster partnerships with the private sector in Botswana is a good first step. Continuous communication with the private sector is important in order for the government to define long term policy goals as well as medium-and short term actions which includes private sector participation. Risk-sharing collaborations provide incentives to private institutions to expand their portfolios to include more segments while maintaining their stability. However, it will be a very long process until such projects will reach middle and lower income groups and those in rural areas, considering the low penetration of mortgage loans of these segments today.

The implications of the discussion shows that in its role as facilitator of housing finance, the government needs to address both the land and housing issues, as well the holdups in the credit market. Even if public private partnerships were to increase mortgage accessibility for more income groups, such actions would not be enough for market development. For expansion of the housing finance market, facilitation of land markets and supply must also be initiated.

Application to other developing countries

The purpose of this thesis was to review the necessary conditions for development of an efficient housing finance in Botswana, and distinguish possible bottlenecks to achieving such a market, as well as suggesting likely solutions. Since we look at an explicit market in a particular country, it is not feasible to simply generalise our conclusions to other developing countries. The complexities around its land tenure system and the low population density are examples of specific characteristics of Botswana that have significant effect on the housing finance market. The country does not face several of the general problems experienced by many developing countries, such as instability and overpopulation, problems which are likely to affect the results.

However, what can be generalised for many developing countries with inefficient housing finance markets, is the role of the government. In most developing countries, government

intervention in housing finance systems is severely rooted, with deeply embedded subsidies. The poor performance of such subsidised housing finance systems challenges their validity. Instead, as the case of Botswana suggests, the focus of the government should be on facilitating land and housing finance markets, as opposed to direct provision. Governments in many developing countries often face political pressure to do something about housing conditions which are perceived as unacceptable by a large proportion of the population. At the same time, many developing countries have to deal with fundamental questions such as public regulations, property rights and structural problems in the housing finance sector. Hence, designing new incentives and institutions to improve market functioning is very complex, and could create negative market effects if it is not done right (Hoek-Smit 2006). By facilitating the institutional structure and provide incentives to the different stakeholders involved, the government can enable the development housing finance sector without direct intervention. As the multitude and depth of housing finance problems varies between different countries, this must be done in accordance to the characteristics of the particular market. Ideally, when the risks in these markets are better understood and controlled and the transaction costs are reduced, the government will be able to decrease or phase out its support.

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List of Interviewees

Interviewee 1	Thelma O'Reilly, Chief Banking Manager, BBS. Interviewed September 13, 2010 in Gaborone.
Interviewee 2	Boiki M W Tema, Segment head - Wholesale Banking, FNB. Interviewed September 14, 2010 in Gaborone.
Interviewee 3	Keith Jefferis, Managing Director, Econsult Botswana. Interviewed September 15, 2010 in Gaborone.
Interviewee 4	John Hinchliffe, Managing Director, John Hinchliffe Consultants. Interviewed September 15, 2010 in Gaborone.
Interviewee 5	Kristin Andreasson, Representative LAPCAS, Lantmäteriet. Interviewed September 16, 2010 in Gaborone.
Interviewee 6	Adele Nelson, Home Loan Consultant, Bank Gaborone. Interviewed September 16, 2010 in Gaborone.
Interviewee 7	Kelebogile Makgato, Manager Credit & Risk, First National Bank Botswana. Interviewed September 16, 2010 in Gaborone.
Interviewee 8	Dixon Dumba, Lecturer in Housing Policy and Management, University of Botswana. Interviewed September 17, 2010 in Gaborone.
Interviewee 9	Kabelo Seadimo, National Director, Habitat for Humanity. Interviewed October 5, 2010 in Gaborone
Interviewee 10	Samuel Aron, Principal Housing Officer, SHHA. Interviewed October 5, 2010 in Gaborone
Interviewee 11	Dizzy Mpoloka, Head of Department of Fiscal Planning and Estate Management, Molopolole City Council. Interviewed October 6, 2010 in Gaborone
Interviewee 12	Mpho Kuaho, Senior Housing Officer Development, Department of Housing. Interviewed October 7, 2010 in Gaborone
Interviewee 13	Lesogo Selotate, Head of dept. Structured finance, CEDA. Interviewed October 7, 2010 in Gaborone
Interviewee 14	Bangidza Dhliwayo, Portfolio Executive: Structured Finance, CEDA. Interviewed October 7, 2010 in Gaborone
Interviewee 15	Dithuto Nkwe, Principal Housing Officer Policy, Department of Housing. Interviewed October 8, 2010 in Gaborone
Interviewee 16	Amutshilani Setoboli, Principal Housing Officer Policy, Department of Housing. Interviewed October 8, 2010 in Gaborone
Interviewee 17	Paar Frank, Manager of Quantity Survey, BHC. Interviewed October 11,

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Interviewee 18	Ian Tema, Director, Department of Land. Interviewed October 12, 2010 in Gaborone
Interviewee 19	Ronnie Masalila, Principal Operations Officer: Property Development and Management, BDC. Interviewed October 13, 2010 in Gaborone
Interviewee 20	John Matlapeng, Senior Research Analyst, BDB. Interviewed October 13, 2010 in Gaborone
Interviewee 21	Sandesh Hegde, Cluster Head of Sales and Lending, Standard Chartered Bank. Interviewed October 14, 2010 in Gaborone
Interviewee 22	Bame C.B. Ketshotseng, Senior Business Development Manager, Standard Chartered Bank. Interviewed October 14, 2010 in Gaborone
Interviewee 23	Rebecca Kesego Olesitse, Head of Credit, BSB. Interviewed October 14, 2010 in Gaborone
Interviewee 24	Cathrine Muvirimi, Property Manager: Valuer & Surveyor, Knight Frank. Interviewed October 14, 2010 in Gaborone
Interviewee 25	Clifford Ferreira, Director of Housing Development, Time Projects. Interviewed October 14, 2010 in Gaborone
Interviewee 26	Baboloki Reetsang, General Manager Benefits Administration, Botswana Public Officers Pension Fund. Interviewed October 15, 2010 in Gaborone
Interviewee 27	A.C. Mosha, Head of dept. Architecture and Planning, University of Botswana. Interviewed October 15, 2010 in Gaborone