

# **OFFICIAL LAUNCH OF BBS LIMITED PALAPYE BRANCH**

## **Keynote Speech**

by

**Moses D Pelaelo  
Governor, Bank of Botswana**

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It is an honour and a great pleasure to join you here this morning for the official opening of Botswana Building Society Limited (BBS), Palapye Branch. Palapye is evidently one of the fastest growing villages in the country. Growth, in this instance, is a function of response to economic opportunities, including actual and potential demand for services. I have no doubt that the decision by Botswana Building Society to establish a physical presence here is similarly a realisation of the potential to serve the proximate community, generate business returns and be part of the Palapye growth narrative.

Distinguished Guests, by way of background, the Botswana Building Society is an offshoot of United Building Society of South Africa, which started operations in Botswana in November 1971. It subsequently transformed to Botswana Building Society in December 1976, with a primary mandate to provide housing finance against immovable urban property,

later extended, in 1986, to cover rural areas, and indeed commercial loans.

The latest transformation, from a friendly, mutual society to a public limited company, incorporated in April 2018, is of great significance in many respects. First, it allows broader scope for consideration of strategy, sustainable funding and provision of a wider array of services by Botswana Building Society. In this regard, there is greater potential to respond to economic opportunities, drive operational excellence and capacity to meet diverse customer needs; thus enhance the value of services to customers, as well as prospects for sustainable returns and growth. Second, Botswana Building Society recently placed its shares on the Serala platform, which is for unlisted equities, at the Botswana Stock Exchange and has shares of over P564 million. This development provides yet another opportunity for ownership and strategic control of a home-grown, prudently managed and profitable financial institution by Botswana. The expectation of Bank of Botswana is that this transformation and growth will be prudently managed and achieved in an environment of sound operations, to ensure durable and beneficial impact on the economy.

Distinguished Ladies and Gentlemen, it is fitting to recognise the growth and impact of Botswana Building Society on the

economic landscape and as part of the financial sector of this country. Taking the twenty years to 2017, the assets of Botswana Building Society have increased at an average annual rate of 13.9 percent. This compares with an annual growth rate of 16.2 percent for commercial banks and 12.3 percent average annual increase in nominal GDP. This suggests a meaningful contribution to the economic and financial development of the country. Dissecting further, the average annual growth in residential mortgage loans was 14.2 percent, compared to 21.8 percent for commercial banks. Another interesting comparison is that outstanding residential mortgages by Botswana Building Society as at the end of June 2018 amounted to P2.9 billion, constituting 31 percent of the total of P9.3 billion for the commercial banks, which for the individual banks, ranged from a smallest value of P2.3 million to the largest amount of P3.2 billion.

Distinguished Guests, this represents some of the relevant information that should inform prospective growth areas, strategic initiatives, and resource requirements of Botswana Building Society, going forward. Interestingly, Botswana Building Society Limited is reportedly making efforts to enhance its service offering and, therefore, potentially greater impact on society and the economy. In this regard, I wish to underscore that, to ensure an enduring and mutually rewarding

relationship, businesses need to treat customers with respect and dignity. To this end, it is pleasing that Botswana Building Society Limited has, as its motto, “we know you better”, which I suppose means, a moral and corporate commitment that BBS staff will give you the respect and service quality that you deserve, here in Palapye.

Distinguished Ladies and Gentlemen, let me now turn to expectations on closing existing gaps with respect to housing finance, resource mobilisation and impact on welfare and sustained increase in incomes. First, it is germane to acknowledge the low level of housing finance in Botswana relative to the size of the economy. For example, residential mortgage lending amounts to 21.6 percent of total bank lending (including statutory banks); 14 percent of total assets of banks; and only 6.9 percent of GDP. Compared to more mature housing markets, these figures are very low. For example, the respective ratios for the United Kingdom are, 70.8 percent of total banking lending; 36.6 percent of total banking assets and 52.7 percent of GDP. This demonstrates the gap in development and the opportunities.

Significantly, growth in this area represents an important source of future income growth and wealth generation. This is in several respects. For individuals, this relates to the opportunity

to invest earnings meaningfully, use of the value of houses to generate other economic activities and sources of income, and potential for increase in wealth over time, as well as serving as a potent hedge against inflation. For the broader economy, there are benefits in terms of a continuous build-up of the volume and variety of stock of housing, alongside growth in the population and incomes. Potentially, this could also have significant distributional effects and, if housing credit is more inclusive, it can reduce income inequality. Furthermore, developed economies, with well-functioning financial systems, such as the United States of America, attest to the fact that citizens can access, in a disciplined and beneficial manner, the so-called “excess equity” in their mortgaged properties and use their houses as ATMs! Moreover, with unconstrained growth in mortgage finance and housing, there are incidental economic opportunities relating to the construction industry and related services, thus contributing to economic diversification.

Distinguished Guests, the second point is that such prospects, however, need support in terms of a land tenure policy that facilitates the use of the various forms of land and real estate across the country to secure mortgage financing. This helps in terms of both financing and marketability of land and property countrywide, with the attendant economic opportunities. Therefore, the Improvement of Land Administration,

Procedures and Systems (LAPCAS) project, that should ease constraints to using land acquired under different tenures as collateral for mortgages, is a welcome development. In this regard, it is our expectation that BBS and, of course other financial institutions in this country, will respond positively in providing affordable credit that the average household in Botswana can access.

The third dimension, Distinguished Ladies and Gentlemen, is that the supporting services need to be robust and sound. Among others, this relates to professionalism around property valuations to ensure that the resultant loan financing is aligned to housing market realities; thus safeguarding the interests of both the financier and the customer; respectively, as well as the soundness of financial institutions and welfare of households. Going forward, the development of a credible property price index and enhancement of sharing of credit information through well-organised credit bureaux would be helpful. Therefore, we agree with the observation made by the Centre for Affordable Housing Finance in Africa, in their 9th Edition of The Housing Finance Yearbook, that “a combination of a good macroeconomic environment, sound policy, better data and increased access to affordable credit” should spur the development of a vibrant housing market to the benefit of a large segment of the population.

Fourth, appropriately structured resource mobilisation is key to successful provision of housing finance and related services. Given that housing finance is inherently long-term in nature and that there is an imperative for further growth in Botswana, it should be supported by a large pool of stable deposits and/or investments. This is afforded by attracting a range of small to large deposits, with associated transactional and return incentives. The point here is that active deposit mobilisation is critical for availing funds that can be deployed to support housing finance without undermining the viability of the financial institution. In addition, a robust capital market that facilitates seamless raising of long-term funds, including corporate bonds to suit various needs, is also needed. It is accepted that, as a matter of prudence, we should not burden short-term finance or worsen the structural maturity mismatches widely prevalent in the country's financial system. Moreover, there is a need to invest in capacity to develop derivative instruments that facilitate risk sharing, as well as transformation and trading of assets and liabilities; thus alleviate constraints to mortgage financing. Regrettably, in this regard, the Botswana financial system is way behind the curve and, despite banking industry outcry about tight market liquidity in recent years, there is not much evidence of any innovative and structured products, such as mortgage-backed securities, negotiable certificates of deposit or credit default swaps.

For its part, the Bank of Botswana has entrenched a largely credible monetary policy framework, with inflation sustained within the objective range of 3 – 6 percent and allowing for maintenance of relatively low interest rates. Furthermore, effective regulatory oversight and prudently managed financial institutions continue to contribute to maintenance of a sound and stable financial system. In this regard, well-anchored expectations, premised on a credible policy framework, supports determination of term structure of interest rates, relevant for both resource mobilisation and pricing of long-term loans. The policy environment is, therefore, conducive for orderly and effective intermediation and productive use of financial resources; and in the context of the theme of my message today, affordable cost of housing finance.

Distinguished Guests, the fifth point, I want to highlight is the importance of presence of institutions and access to services, as demonstrated by the opening of the Palapye Branch of Botswana Building Society. Geographical spread of financial institutions allows for proximate access to financial services, in terms of both acquaintance and usage. This augurs well for financial inclusion. Thus, when people know about the existence and benefits of services and facilities, and when these are accessible in a convenient and cost-effective manner, they are more likely to use such services. Increasingly, “virtual”



presence and access enabled by digital channels has become a viable platform for access to services and needs to be harnessed accordingly. Overall, presence and accessibility enhance prospects for mobilisation of financial resources, and effective demand for housing finance and other beneficial loan products; ultimately leading to increase in social welfare, as well as the broadening and growth of economic activity.

I should, therefore, acknowledge that, currently, Botswana Building Society has offices and branches in Francistown, Gaborone, Kasane, Lobatse, Maun, Selibe Phikwe, Serowe; and now Palapye, in addition to twelve automated teller machines (ATMs) countrywide. More significantly, BBS has and continues to invest in various corporate social responsibility projects worth millions of Pula. Among these projects are a school library in Letswai Primary School in Zutshwa; computer labs at Marapong and Mowana Primary Schools in the Central and North East Districts, respectively, as well as building new ablution facilities and upgrading old ones at Molapowabojang Primary School. These investments in educational facilities will go a long way in contributing towards good education for our children and this is to be applauded.

On that note, let me conclude by indicating that it is my expectation that patronage and use of financial services will

increase because of this new branch. Thus, with relevant business strategies by Botswana Building Society, as well as facilitative policy environment, this branch will foster and sustain financial inclusion and, in turn, the attendant benefits of productive saving and use of finance, access to payments services, and broadly, enhanced economic activity. I implore you all, Palapye residents, the surrounding areas and beyond, to use BBS and other financial institutions in your area, to save; to access and use credit wisely, for the benefit of your families and sustainable development of the country.

It is now my honour and privilege to declare the BBS Limited Palapye Branch officially open.

I thank you for your kind attention.