



# HOUSING FINANCE MECHANISMS In Bolivia

This report reviews the housing finance mechanisms and instruments in Bolivia. It consists of six parts. Part 1 provides an overview of the political, macro-economic and financial sector and its development issues in Bolivia. Part 2 describes the state of housing in Bolivia, including the nature and scope of the housing problem, the structure of the housing market and the construction industry. Part 3 analyzes the evolution of housing finance and the driving forces behind its development; and examines the role of the State in establishing and promoting housing finance, a stable financial sector, and recent housing and housing finance policies. Part 4 illustrates the main housing finance products and instruments in Bolivia. Part 5 examines bottlenecks and factors constraining the development of housing finance mechanisms in Bolivia. Finally, it presents the lessons and recommendations for developing housing finance in Bolivia.



UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME  
P.O. Box 30030, GPO Nairobi 00100, KENYA;  
Telephone:+254-20-7623120; Fax:+254-20-7624266/7 (Central Office)  
E-mail:infohabitat@unhabitat.org; Website: <http://www.unhabitat.org/>

HS/1019/08  
ISBN: 978-92-1-132022-0 (series)  
ISBN: 978-92-1-131999-6

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME

# HOUSING FINANCE MECHANISMS in Bolivia



UN-HABITAT

---

UNITED NATIONS HUMAN SETTLEMENTS PROGRAMME

Nairobi, 2008

*The Human Settlements Finance Systems series*

Housing Finance Mechanisms in Bolivia

First published in 2008 by UN-HABITAT.

Copyright © United Nations Human Settlements Programme 2008

HS/1029/08

ISBN: 978-92-1-132022-0 (series)

ISBN: 978-92-1-132008-4

## Disclaimer

The designations employed and the presentation of the material in this publication do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Views expressed in this publication do not necessarily reflect those of the United Nations Human Settlements Programme, the United Nations and its member states.

Excerpts may be reproduced without authorization, on condition that the source is indicated.

## Acknowledgements:

Principal Editor and Manager: Xing Quan Zhang

English Editor: Ingrid Uys

Principal Author: Felipe Morris

Design and Layout: Sarah Oiro

## FOREWORD



At the dawn of this new urban era, UN-HABITAT research shows that by 2030, two-thirds of humanity will be living in towns and cities. We thus live at a time of unprecedented, rapid, irreversible urbanisation. The cities growing fastest are those of the developing world. And the fastest growing neighbourhoods are the slums. Indeed, the global number of slum dwellers is now at or close to the 1 billion mark. Excessive levels of urbanization in relation to the economic growth have resulted in high levels of urban poverty and rapid expansion of unplanned urban settlements and slums, which are characterized by a lack of basic infrastructure and services, overcrowding and substandard housing conditions.

Yet housing and the services that should be provided with it are one of the most basic human needs. It is enshrined in various

international instruments, including the Habitat Agenda. And reducing the number of slum dwellers around the world is a cornerstone of the Millennium Development Goals set to fight poverty around the world. So if we fail to achieve the Goals in towns and cities, we will simply fail to achieve them at all.

It was with this crisis in mind that the United Nations General Assembly decided in its resolution of 26 February 2002 to transform United Nations Commission on Human Settlements into a fully pledged programme. The General Assembly in its resolution called on UN-HABITAT to take “urgent steps to ensure a better mobilization of financial resources at all levels, to enhance the implementation of the Habitat Agenda, particularly in developing countries.” It also stressed “the commitments of member states to promote broad access to appropriate housing financing, increasing the supply of affordable housing and creating an enabling environment for sustainable development that will attract investment”.

The Habitat Agenda recognizes that housing finance systems do not always respond adequately to the different needs of large segments of the population, particularly the vulnerable and disadvantaged groups living in poverty and low income people. It calls UN-HABITAT to assist member states to improve the effectiveness, efficiency and accessibility of the existing housing finance systems and to create and devise innovative housing finance mechanisms and instruments and to promote equal and affordable access to housing finance for all people.

In our quest to reach as many people as possible, a cornerstone of our agency’s new Medium-term Strategic and Institutional Plan is partnerships. We have no choice but to catalyze new partnerships between government and the

private sector. This is the only way to finance housing and infrastructure at the required scale – the scale needed to stabilize the rate of slum formation, and subsequently reduce and ultimately reverse the number of people living in life-threatening slum conditions.

It is clear that in the coming 20 years, conventional sources of funds will simply be unavailable for investment at the scale required to meet the projected demand for housing and urban infrastructure. Many countries around the world continue to face deficits in public budgets and weak financial sectors. Local governments have started to seek finance in national and global markets, but this is only in its initial phase.

New mortgage providers have emerged, including commercial financial institutions and mortgage companies. But only middle and upper income households have access to such finance, while the poor are generally excluded. Although social housing is becoming less important in Europe and in countries with economies in transition, the need to provide shelter that is affordable to low income households still exists, including in developing countries.

This is why the exchange of information and knowledge on human settlements finance systems is so important. It is why it receives increased recognition in facilitating the development of human settlements finance systems and in turning knowledge into action for developing practical human settlements finance methods and systems for these pressing problems.

Our Human Settlements Finance Systems series documents the state, evolution and trends of human settlements finance in member states, and examines the factors and forces which drive the development of human settlements finance systems and the roles of different institutions and actors in shaping the systems and trends, and reviews human settlements finance systems. It presents an interesting review of policies, instruments, processes and practices.

It examines the strengths and weakness of these systems and practices, their relations to the housing sector and the broad economic and social sectors, and lessons learned from practices.

Indeed, the country review studies we present are a valuable resource for member States because it is a body of work that also shows how human settlements finance systems and models can be applied to local use and thus provide a wider range of options for human settlements finance. The series also serves as guidebooks for policy makers, practitioners and researchers who have to grapple daily with human settlements finance systems, policies and strategies.



Anna Tibaijuka,  
Under-Secretary-General  
of the United Nations,  
Executive Director, UN-HABITAT.

# Table of Contents

FOREWORD .....	III
TABLE OF CONTENTS.....	V
LIST OF TABLES.....	VI
ACRONYMS AND ABBREVIATIONS.....	1
CHAPTER 1	
Review of Housing Finance Mechanisms in Bolivia .....	2
A. Macroeconomic And Political Framework.....	2
B. Bolivia's Financial Industry .....	4
C. Role Of The State In Financial Intermediation .....	12
CHAPTER 2	
Description of the Housing Situation in Bolivia .....	16
A. The Nature And Scope Of The Housing Problem In Bolivia. ....	16
B. Social Conditions.....	21
C. The Housing Market In Bolivia.....	23
D. The Construction Industry .....	25

CHAPTER 3

Evolution of Housing Finance and the Driving

Forces for the Development of Housing Finance in Bolivia..... 26

A. The Current State Of Housing Finance In Bolivia ..... 26

B. The Role Of State In Establishing/promoting Housing  
Finance And Financial Stability In Bolivia; ..... 34

CHAPTER 4

Major Housing Finance Products/Mechanisms in Bolivia ..... 38

CHAPTER 5

Bottlenecks and Factors Constraining the Development of  
Housing Finance Mechanisms in Bolivia ..... 42

CHAPTER 6

Lessons and Recommendations for Developing Housing  
Finance in Bolivia ..... 45

REFERENCES ..... 48

## List of Tables

Table 1.1: Bolivia: Selected Economic Indicators .....	3
Table 1.2: Main Indicators of the Financial System.....	5
Table 1.3: Evolution of Bolivia Financial System by Type of Institution.....	7
Table 1.4: Main Indicators of the Financial System.....	8
Table 1.5: Banking Loans by aturity.....	8
Table 1.6: Evolution of Trading Volume in the Stock Exchange.....	13
Table 2.1: Demographic Data and Main Urban Cities.....	15
Table 2.2: Intercensal Evolution of Population and Households.....	16
Table 2.3: Evolution of Main Housing Indicators.....	17
Table 2.4: Housing Ownership in Bolivia.....	17
Table 2.5: Access to Services in Households (2001).....	18
Table 2.6: Access to Services in Households (2005).....	18
Table 2.7: Estimation of housing Deficits (2001).....	19
Table 2.8: Poverty Indicators, 1999-2002.....	21
Table 2.9: Unemployment and Underemployment Data.....	21
Table 3.1: Evolution of Housing Mortgage Loans.....	27
Table 3.2: Annual and Compounded Growth Rate of Mortgage Credits.....	27
Table 3.3: Evolution of Number of Housing Loans.....	28
Table 3.4: Evolution of Overdue Mortgage Loans.....	29
Table 3.5: Evolution of Number of Overdue Housing Loans.....	29
Table 3.6: Average Interest Rates for Housing Credits.....	31
Table 4.1: Financing Conditions Under Current Government Subsidy Program...	38



## Acronyms and Abbreviations

AFPs	Administradoras de Fondos de Pensión
ASOFIN	Asociación de Entidades Especializadas en Microfinanzas
BDP	Banco de Desarrollo Productivo
CABOCO	Cámara Boliviana de Constructores
FSAP	Financial Sector Assessment Program
FINRURAL	Asociación de Instituciones Financieras para el Desarrollo Rural
FONDESIF	Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo
FONVI	Fondo Nacional de Vivienda
FONVIS	Fondo Nacional de Vivienda Social
FUNDAPROVI	Fundación Provivienda
GDP	Gross Domestic Product
GNP	Gross National Product
IDB	Inter-American Development Bank
INE	Instituto Nacional de Estadística
NAFIBO	Nacional Financiera Boliviana
NDP	National Development Plan
NGOs	Non Government Organizations
PNSV	Programa Nacional de Subsidio de Vivienda
PVF	Programa de Vivienda Familiar
PVS	Programa de Vivienda Social y Solidaria
RENASEH	Red Nacional de Asentamientos Humanos
SDRs	Special Drawing Rights
SBEF	Superintendencia de Bancos y Entidades Financieras
SMEs	Small and Medium Enterprises
SPVS	Superintendencia de Pensiones, Valores y Seguros
TRE	Tasa de Referencia
UDAPE	Unidad de Análisis de Políticas Económicas
UFV	Unidad de Fomento de Vivienda

# Chapter 1 - Review of Housing Finance Mechanisms in Bolivia

## A. MACROECONOMIC AND POLITICAL FRAMEWORK

Bolivia has a long history of political instability and social unrest. It has undergone long and at times turbulent social change. There are increasing pressures for change and for social mobility in a society perceived as highly stratified in which white and *mestizo* economic interests dominate the majority indigenous population. This pressure has led to the mobilisation of indigenous and marginalised groups, a growing presence of indigenous representatives in local government and in Congress, and a popular election of Bolivia's first indigenous president in December 2005.

With a gross national income per capita of only USD910, Bolivia is the second poorest country in Latin America. In 1985, after a deep economic crisis in the early 80s, with a hyperinflation, the macroeconomics was radically transformed with the implementation of a new liberal economic model, which introduced "first generation" structural reforms, and strengthened the financial system. The country passed through a period of uncertainty from 2000 in which the existing economic model was challenged because it failed to improve the wellbeing of the poor. In December 2005, a new government headed by President Evo Morales, was elected with an absolute majority (54 percent of voters). With a strong mandate to address the country's long-standing social problems with a new approach, the new government prioritised constitutional reform and poverty reduction. At the local level the most pressing priorities, which included basic urban infrastructure, transport and sanitation, reflected a higher level of developmental

problems such as urban marginality, urban vulnerability to natural disasters, urban transport congestion and limited access to and quality of basic urban services.

The administration of president Morales, elected with a clear majority and representative of groups claiming to be excluded from mainstream society for centuries, provided Bolivia with a mandate to build a more inclusive society. Two major developments marked the close of 2007 in Bolivia:

- (i) the passage of a new constitution and
- (ii) a worsening of political polarisation in the country.

The new constitution reflects the socialist policies advocated by president Morales, while racism, regional and political divisions, still could push Bolivia into a wider conflict and into a deeper instability.

The recently approved Constitution has been opposed by several Provinces (*departamentos*), some of whom want autonomy. Traditionally, Bolivia has been governed by an all-powerful central government responsible for nearly all government functions, including the collection of taxes and the provision of police. Not until 2005 were the provinces allowed to elect their own governors. Since then, six of the country's nine governors have emerged as opposition leaders. Conservative governors in the country's eastern half have rejected the draft constitution and are poised to seek a referendum that will transfer to their provinces rights to levy taxes and set up police forces, the responsibility for which, traditionally has belonged to Bolivia's central government. Opponents of the government suggest that President Morales has decided to force a political confrontation, influenced by presidents Castro of Cuba and Chavez of Venezuela. Morales has been accused

of trying to install a socialist, authoritarian regime in Bolivia, modelled after the Cuban and Venezuelan regimes.

Facing imminent defeat at the hands of the Bolivian Constituent Assembly -- which failed to agree on the new constitution -- Morales decided to convoke, unilaterally, a meeting of the Constituent Assembly, without the presence of the opposition. Meeting in a military barracks in the city of Sucre, a Morales stronghold, the Assembly approved his constitution in record time. It greatly increased his presidential powers, gave the indigenous population a politically privileged status and reduced the share of hydrocarbon revenues being allotted to the provinces.

In addition to its political concerns, the new government faces numerous and serious development challenges. Despite some improvements, social indicators in health, education, and access to basic services, like water and sanitation, continue to be low. Private investment and economic growth picked up in the 1990s, but has fallen again as a result of the socio-political unrest of the past few years and the current uncertainty over the definition of the new government's approach in key sector areas. The new National Development Plan, "Dignified, Sovereign, Productive and Democratic Bolivia, a plan for living well: 2006-2010" contains three pillars:

- (i) productive development and employment generation;
- (ii) justice and social inclusion; and
- (iii) macro-economic stability.

The government has formulated a development strategy based on increased government intervention in the economy, which aims to promote economic inclusion and improve social outcomes with the hope of placing Bolivia on a path of sustained growth and poverty reduction. Experiences elsewhere of this type of economic model indicate a failure generally in raising the standard of living or in promoting sustainable long-term

development. A recent World Bank report stated, "*the government's expressed intention of transforming the nature of the country's politics, economy and society through constitutional change, nationalisation of natural resources, land reform, and a much stronger role of the central government in the economy is, however, likely to lead to a period of risk and uncertainty*". The report also claimed that the success of this approach would hinge on the government's ability to meet the high expectations of the population while ensuring an appropriate environment for continued private sector investment, critical to growth and job creation.<sup>1</sup>

The new administration inherited relatively favorable economic conditions, despite the uncertainties created by the political and social events of the past few years. While there are risks in the medium to long-term, the short-term macro-economic situation is relatively stable with growth at 4 percent and public finances in reasonable shape, aided by foreign debt forgiveness and increased taxes on hydrocarbons. This positive outcome is explained by an increase in government revenues, resulting from the new hydrocarbon policy and increased gas exports, improvements in tax administration and low execution of public expenditure of sub-national governments. In addition, the structure of public sector debt has been improved, as the government increased the share of *Boliviano*-denominated debt in total public sector debt, thereby reducing exchange rate and rollover interest rate risks.

This situation puts Bolivia in a good macro-economic position, as reflected by recent economic indicators. In 2006, the country showed the following economic indicators:

- (i) a growth rate of 4.6%;
- (ii) inflation below 5%;
- (iii) a surplus on the balance-of-payments current account equivalent to 12% of gross domestic product and an overall surplus of 4.6%.

<sup>1</sup> Interim Strategy Note for the Republic of Bolivia, World Bank, October 2006.

This is the outcome of a combination of external and internal factors, including:

- (a) a conducive international environment, reflected in high commodity prices, low international interest rates, increased remittances, and a fairly promising regional economic growth;
- (b) further debt forgiveness by the international development community; and
- (c) the government's macro-economic policy, its impact on changes and increased revenues from the national tax system.

Total outstanding public sector debt decreased from USD6.8 billion at the end of 2003 to USD5.8 billion in August 2006 due to external debt relief initiatives, reduction of the public sector deficit and a slower depreciation of the nominal exchange rate.<sup>2</sup> Economic growth dropped to 3.8% and inflation increased to 12% in 2007 due to an increase in the price of foodstuffs such as meat, wheat, among other products. The economy continues to show a positive balance of payments and a fiscal surplus, although lower than in 2006.

## B. BOLIVIA'S FINANCIAL INDUSTRY

In the late 1980s and 1990s Bolivia's financial system went through a significant transformation. Far-reaching reforms were implemented, aimed at increasing confidence, competition and resource mobilization, at reducing the high cost of credit, increasing the efficiency of financial intermediation and reducing government intervention in the financial markets.

The reforms consisted of new laws for Bolivia's four financial pillars: the banking system, capital markets, pension scheme and the insurance industry, as well as, for the Central Bank of Bolivia. These laws were accompanied

by extensive regulation and enforcement. Independent regulators for the four financial pillars were established. The *Superintendencia de Bancos y Entidades Financieras* was established to regulate banks and non-bank financial institutions, and the regulation of securities, pensions and insurance was consolidated under one regulatory body, the *Superintendencia de Valores, Pensiones y Seguros*. Extensive training, both on-site and off, and the development of manuals of procedures, classification and risk, have all formed a part of a fairly extensive programme to strengthen regulation and supervision of the regulators.

The three first-tier public development banks and the only public sector commercial bank were liquidated in the early 1990s and as a result there are no first-tier public banks in Bolivia. These public banks had represented an immense drain on Treasury resources. Finally, the government eliminated a series of economic adjustment regulations, such as interest rate controls, high and distortionary reserve requirements, credit allocation policies, and restrictions on banking activities, including limits on multiple banking.<sup>3</sup>

Despite these reforms, Bolivia's financial system experienced a very deep crisis which started at the end of 1999 and lasting the first four years of this century. The Bolivian financial system continues its recovery from the 2001-2003 crisis that affected a large percentage of the system. Financial sector stability has improved, with comfortable levels of liquidity (liquid assets amount to about 50% of deposits) and almost full coverage of overdue loans (the unprovisioned portion amounts to about 9% of capital). Bank profitability has improved and capitalization remains above regulatory requirements. Return on assets and equity increased in 2006 to 1.3% and 13.3%, respectively (from 0.7% and 6.4% in 2005).

Despite these improvements, several vulnerabilities persist. Credit Risk is still high

<sup>2</sup>UDAPE (2007)

<sup>3</sup> Bolivia has shifted from specialised commercial banking to other activities such as short and long-term lending and investment banking.

**Table 1.1: Bolivia: Selected Economic Indicators (in percentages)**

	2003	2004	2005	2006	2007 (est)
Real GDP Growth	2.1	4.2	4.0	4.6	3.8
CPI Inflation	3.9	4.6	4.9	4.9	12.0
Lending rate (pesos)	10.4	10.6	9.8	9.0	
Lending rate (US\$)	9.5	9.5	11.6	11.2	
Deposit rates (peso 60-90 days)	11.7	6.8	4.8	3.8	4.1
Deposit rates (US\$60-90 days)	1.3	1.7	2.7	2.6	2.4

Source: IMF and Central Bank of Bolivia

as restructured but performing loans (about 90% of capital) may deteriorate. Moreover, it is possible that some banks might have to make additional provisions to cover potential losses arising from the unprovisioned portion of nonperforming loans. Finally, despite some decline, dollarisation still remains among the highest in the region, with the financial system considerably exposed to credit risk from unhedged borrowers.

A recent International Monetary Fund report indicates that “*while important structural reforms have been implemented in recent years, a number of necessary reforms identified by the 2003 Financial Sector Assessment Programme remain pending.*”<sup>4</sup> Work remains to be done in the following areas:

- (i) amending the legislation governing corporate bankruptcy/restructuring,
- (ii) ensuring proper consolidated supervision through better coordination between regulators,
- (iii) strengthening the Financial Intelligence Unit and legislation against money laundering,
- (iv) creating a deposit insurance scheme,
- (v) internalizing the risks posed by financial dollarisation through prudential regulations; and
- (vi) adopting regulations to offset market risks.

<sup>4</sup> IMF (2007)

### The Structure of the Financial System

Bolivia’s financial system is composed of both regulated and unregulated financial intermediaries. The regulated financial intermediaries are those under the supervision of the Superintendency of Banks (*Superintendencia de Bancos y Entidades Financieras*). Broadly-defined, these are the deposit taking institutions, including Commercial Banks, Private Finance Funds (*Fondos Financieros Privados*), open Credit Cooperatives or credit unions and Savings & Loans Companies (*Mutuales*). The unregulated institutions are mostly non-deposit taking non-governmental organisations, and closed cooperatives that may only provide services to members.

Bolivia’s financial system is primarily regulated by the Central Bank (*Banco Central de Bolivia*), the *Superintendencia de Bancos y Entidades Financieras*, the Superintendency of Pensions, Securities Markets and Insurance (*Superintendencia de Pensiones, Valores y Seguros*). The regulatory structure establishes the Central Bank as responsible for financial stability, for conducting monetary and exchange rate policies and overseeing and regulating the payments’ system. The *Superintendencia de Bancos y Entidades Financieras*, like the *Superintendencia de Pensiones, Valores y Seguros*, is an autonomous regulator, empowered to prepare and implement regulations, identify and

correct financial weaknesses, impose penalties and fines and ensure the financial health of the system. The *Superintendencia de Bancos y Entidades Financiera* has specific regulatory and surveillance responsibilities over banks, finance companies and non-banking financial institutions.

### Regulated Institutions

The Banking law separates regulated institutions into two groups, banks and non-banks. Non-bank financial institutions include finance companies, open credit cooperatives and mutuals or savings and loans. The main difference between banks and non-banks is that the former have broader powers and larger capital requirements. Banks are allowed to take checking deposits, intervene in foreign trade finance activities, act as originating agents in securitisation transactions, manage investment funds and act as trustees. Credit cooperatives are what are referred to as credit unions in other countries while mutuals are the typical savings and loan institutions.

### Credit Cooperatives.

These institutions are also known as Credit Unions. They are cooperative organisations that belong to its members. Cooperatives or Credit Unions are entities that originated in Bolivia in the 1960s from the initiative of family groups related to parish centers with a particular legal framework that permitted them to flourish nationwide. In Bolivia only “open” credit cooperatives are able to request a license from the *Superintendencia de Bancos y Entidades Financiera* to act as financial intermediary. Open cooperatives operate with members and non-members and can perform most financial activities of banks (including taking deposits and making loans). They are prohibited from undertaking the following activities:

- (i) warehousing,
- (ii) issuing credit cards and travelers checks,

- (iii) engaging in factoring and leasing,
- (iv) valuing financial institutions,
- (v) carrying out trading activities in foreign exchange futures.

### Mutuales or Savings & Loans.

Mutuals are private non-profit organisations authorised by *Superintendencia de Bancos y Entidades Financiera* to act as financial intermediaries and perform a wide range of financial activities (including taking deposits and making loans), with the exception of:

- (i) providing leasing and factoring finance,
- (ii) valuing financial institutions,
- (iii) issuing travelers checks,
- (iv) carrying out trading activities in foreign exchange futures,
- (v) investing in securitisation companies,
- (vi) engaging in Repo operations of financial instruments,
- (vii) investing in the capital of second-tier banks, finance companies, insurance companies or pension fund management companies, and
- (viii) manage investment funds for third parties.

To offer checking outs or credit cards to clients they need to obtain a specific authorization from *Superintendencia de Bancos y Entidades Financiera*. They have more limited powers than banks or Credit Cooperatives.

The main objective of Mutuals is to provide a venue for savings and loans for housing purposes, particularly for the middle and low-income families living in the main cities of the country.

### Private Financial Funds (Fondos Financieros Privados).

Private Financial Funds are a new financial entity introduced in the 1994 Banking Law, permitting the creation of small quasi-banks with lower capital requirements than commercial banks. These new financial entities

were created to provide financial services to the small and micro-business sectors (for industrial and commercial activities) in urban and rural areas. They are also involved in providing housing credits, but it does not constitute an important part of their overall lending activity in terms of percentage of credit volume.

As other non-bank financial intermediaries, Private Financial Funds are allowed to engage in a wide variety of activities, including deposit taking and providing loans. They are not allowed to:

- (i) perform warehousing services,
- (ii) engage in factoring,
- (iii) manage account receivables for third parties,
- (iv) handle foreign trade related money transfers,
- (v) invest in securitisation companies,
- (vi) invest in insurance companies, and
- (vii) manage investment funds for third parties.

Capital requirements for banks start at Special Drawing Rights<sup>5</sup> 5.5 million, while non-bank capital requirements are Special Drawing Rights 630,000 for finance companies, Special Drawing Rights 100,000 for Cooperatives, and Special Drawing Rights 300,000 for Savings & Loans. For the most part, the non-bank

financial institutions serve the needs of micro-enterprises and make small personal loans to lower-income individuals.

Bolivia's financial system is highly concentrated. Banks account for more than 70% of the system's assets, loans, capital and deposits. Concentration exists not only by type of financial institution, but also within the commercial banking system itself. October 2007 data indicates that the four largest banks of the system account for 66% of total credits of the banking system and 50% of the credits of the financial system as a whole.

In addition to banks and non-bank financial institutions, the regulated financial system includes a government majority-owned financial institution, the Banco de Desarrollo Productivo and the Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo. These two institutions are basically second-tier lenders, although Banco de Desarrollo Productivo also has the possibility of making direct loans to the productive sector in those segments where the commercial banking system lacks interest. With the exception of Banco de Desarrollo Productivo, there are no other government-owned institutions that have the possibility in engaging in direct lending to the general public or firms.

**Table 1.2: Relative Participation of Regulated Financial Institutions by Type (as of October 2007 in percentages)**

	Assets	Loans	Deposits	Capital
Banks	78	76	79	73
Mutuals	8	7	8	10
Cooperatives	6	7	6	9
Financial Funds	8	11	7	8
Total	100	100	100	100

Source: SBEF

<sup>5</sup> Special Drawing Rights, 1 SDR = USD1.5913 (January 14, 2007)

**Table 1.3: Evolution of Bolivia's Financial System by Type of Institution (Total Assets in million of dollars)**

	1998	2000	2002	2004	2005	2006	Oct-07
Banks	5,687	5,045	4,080	3,614	3,968	4,462	5,210
Mutuals	445	480	468	470	503	513	541
Cooperatives	256	247	235	267	313	339	392
Financial Funds	194	158	225	385	322	431	549
Total	6,582	5,931	5,007	4,736	5,106	5,745	6,693

Source: SBEF

The Bolivian financial system reached its peak in total assets in 1998, and thereafter experienced a period of contraction lasting between 1999 and 2004. The recovery of the system started in 2005 and only by late 2007 did the system reach the level of assets (in nominal dollars) that it had in 1998, before the crisis began.

Superintendencia de Bancos y Entidades Financieras' information through the first half of 2007 indicates that the financial system has been showing strong indicators due to an increase in its loan portfolio, financial investments, and deposits. The banking and non-banking systems witnessed a robust expansion in their loan portfolios, which rose to USD2.5 billion and USD771 million, respectively. Despite the growth of the system's loan portfolio, it was exhibiting:

- (i) a high level of liquidity (USD1.6 billion in the banking system and USD194 million in the non-banking system);
- (ii) delinquency rates of 7.9% in the banking system and 1.5% in the non-banking sector;
- (iii) interest rates for foreign-currency lending operations of between 10.2% and 12.0% in the banking sector and averaging 19.3% in the non-banking sector and rates for foreign-currency deposits of between

2.2% and 3.0% in the banking sector and an average of 3.7% in the non-banking sector;

- (iv) interest rates of around 12.0% for local-currency lending operations and of about 4.0% for local-currency deposits in the banking sector;
- (v) a return on assets and a return on equity of 1.4% and 16.3%, respectively, in the banking sector and of 1.5% and 16.6% in the non-banking sector;
- (vi) equity holdings of USD402 million and rising in the banking sector and USD86 million and rising in the non-banking sector; and
- (vii) capital adequacy ratios of 13.3% in the banking system and 11.34% in the non-banking system, above the 10.8% legal requirement.

The condition of the financial system has improved significantly in the past few years. There have been significant advances in profitability, solvency and liquidity. The profitability of the system improved from -8.8% in 2000 to 11.5% in 2006 and the solvency indicator (the ratio of unreserved overdue loans to capital) showed a substantial improvement by dropping from 29.9% to 7.3% in the same period.<sup>6</sup>

<sup>6</sup> UDAPE (2006)



**Table 1.4: Main Indicators of the Financial System** (in percentages)

	2000	2003	2005	2006
Asset quality 1)	10.1	15.0	10.1	9.0
Profitability 2)	-8.8	4.0	7.5	11.5
Solvency 3)	29.8	21.1	9.2	7.3
Liquidity 4)	29.9	32.8	38.9	38.3
Efficiency 5)	4.7	4.4	4.8	4.6

1) *Overdue to total loans*

2) *Net profits to capital*

3) *Unreserved overdue loans to capital*

4) *Excess Liquid assets over liquid liabilities*

5) *Administrative expenses to total assets*

Source: SBEF and UDAPE

Despite an increase in liquidity in the financial system, the productive sector says that financial institutions do not provide sufficient financing for production projects. Several problems exist in the financial system that affect its ability to allocate credit efficiently in the economy. In the case of intermediary institutions, subject to government regulation, the problems includes:

- (i) a lack of long-term funds;
- (ii) a lack of capacity for the appraisal of productive investment projects; and
- (iii) excessively high costs of the extension and recovery of credit to small production units.

There is not much information on the maturity of loans in Bolivia. The *Superintendency* publishes information about maturities by category: short, medium and long-term. Commercial banks as a whole have 29% of loans classified as short term, 29% as medium term and 42% as long-term. The bulk of loans classified as long term are related to housing credit.

In the case of intermediary institutions not subject to government regulation, the problems include:

- (i) a lack of funds; and
  - (ii) until October 2006, no legal authorisation to offer comprehensive financial services on behalf of government-regulated intermediaries.
- On the other hand, financial institutions indicate that micro, small, and medium-sized enterprises have the following characteristics that affect their creditworthiness:
- (i) a lack of reliable information;
  - (ii) many need to overhaul their operations;
  - (iii) some have profitable ventures but have a poor equity position or credit record or lack a credit history;
  - (iv) others have rural production projects that cannot afford the prevailing lending rates; and
  - (v) another group has production projects that cannot be carried out on the basis of the loan repayment periods available to them.

Other problems include:

- (i) microenterprises that cannot afford the prevailing lending rates for their production projects; and
- (ii) rural microenterprises whose remote location prevents them from utilising

**Table 1.5: Banking Loans by Maturity** (in millions Bolivianos as of December 2007)

	Total Loans	%
Short term (up to 1 year)	8,298	28.7
Medium term (1- 5 years)	8,485	29.3
Long term (over 5 years)	12,143	42.0
Total	28,926	100

Source: SBEF

the services of regulated or unregulated intermediaries.

This situation has caused a shortage of funding for the production sector owing to a chronic lack of funding for microenterprises, especially in rural areas. It has also caused a lack of credit under appropriate terms and conditions that would enable small and medium-sized enterprises to undertake productive investments. These problems are holding back the country's growth and development.

Another major constraint in the expansion of credit in Bolivia is the distrust that lenders have towards the legal system. There is a need to strengthen judicial legislation and practices to redress the perception of a bias against creditors. There is also the need to accelerate procedures in executing guarantees or perfecting collateral which can take years, discouraging creditors from lending.

These laws do not provide lenders with adequate recourse in the event of a default. Banks in Bolivia are reluctant to lend to local firms because of the perception among them that Bolivia's legal and judicial systems are biased against creditors. To encourage banks to lend to firms, especially small and medium size firms, the judicial system should be strengthened to enforce contracts between lenders and borrowers. A major constraint on lending throughout developing countries is the inability to perfect collateral in the event of default. It can take years to seize a pledged asset whereas in developed countries this is a fairly straightforward procedure. Banks often over-collateralise or do not lend at all. In this respect several measures can be taken, such as allowing the registration of movable collateral, but there is the need to improve legislation around the perfection of more traditional types of assets. This process needs to be simple, with clear procedures and transparent to the public.

Another notorious characteristic of Bolivia's financial system is the predominance of dollar assets and liabilities in its operations, although

this is slowly being reversed. As of June 2007, 73% of total deposits were denominated in US dollars or adjusted to exchange rate fluctuations, a percentage that was dropped from 93% in June 2002. The dollarisation of loans is also receding but at a slower rate. As of June 2007, 81% of total loans were dollar denominated compared with 96% in 2004. This occurs not only in the case of banks, but in the other financial intermediaries as well. Even micro-sector loans are denominated by dollars. The inability of the authorities to reverse the dollarisation of the economy has been one of the most important failures of the financial reform programme implemented in the mid-1980s. It was expected that macroeconomic stability in the form of low inflation and gradual devaluation would shift the currency-preference of economic agents towards Bolivianos and away from US dollars. This is allegedly starting to happen. However, a recent surge in inflation has not been good for the "*de-dollarisation*" of the financial system.

The high degree of dollarisation in Bolivia significantly constrains the scope of using the exchange rate to stimulate economic activity. The economic slowdown and recent shocks continue to reduce the capacity of debtors to pay, with the consequent deterioration in loan portfolio quality. A major devaluation would severely erode the solvency of debtors and the banking system because of the substantial presence of dollar indebtedness among households and corporations whose incomes are not denominated by dollars. The high degree of dollarisation in Bolivia means that balance sheet effects are likely to offset the salutary flow effects of a devaluation of the boliviano on relative prices and economic activity, and this causes a constraint on the scope of exchange rate policy.

In November 2001, in an attempt to provide an alternative to the dollar, and to fulfill a need for low income housing finance, the government implemented a housing promotion unit, the *Unidad de Fomento a la*

*Vivienda* consisting of a national monetary unit adjusted to inflation.<sup>7</sup> The *Unidad de Fomento a la Vivienda* was intended to provide the market with instruments through which they might hedge against the risk of inflation. The *Unidad de Fomento a la Vivienda* is an indexing system used to create different instruments. The aim of this strategy was to promote financial sector lending for housing by reducing the currency risk perception which has proved a disincentive in lending foreign currency and developing a market in inflation-adjusted financial instruments.

The Central Bank has tried to promote the development of financial instruments denominated in local currency with *Unidad de Fomento a la Vivienda* adjustment with little success so far. In 2002, it started selling public instruments with *Unidad de Fomento a la Vivienda* adjustment. It is too early to tell if this initiative will succeed in reducing the high degree of dollarisation in the economy. Indexation has been quite successful in Chile, but it has never been a dollarised economy. In Peru, a dollarised country, the government introduced VAC (an index similar to “*Unidad de Fomento a la Vivienda*”) in 1992, and despite several years of inflation and exchange rate stability, so far it has not found an alternative to the dollar. Other countries such as Brazil and Colombia also implemented indexation schemes that failed either because they were complicated and difficult to understand, or failed to fully reflect inflation.

Thus far the *Unidad de Fomento a la Vivienda* has failed to attract the interest of the general public or financial intermediaries in Bolivia. Only a few institutions offer *Unidad de Fomento a la Vivienda* denominated products and the public continue to prefer dollar or peso denominated assets or liabilities. In recent

<sup>7</sup> Decree Supreme 26390 of November 8, 2001. The UFV consists of an index of daily fluctuations in prices calculated by the Central Bank based on the Consumer Price Index published by the *Instituto Nacional de Estadística*.

years this partly reflects the revaluation of the boliviano vis-à-vis the US dollar that has made *Unidad de Fomento a la Vivienda* borrowing very expensive.

The dollarisation of assets and liabilities involve significant risks to financial institutions, some of which can be controlled. For instance, banks can implement policies to match the currency of assets and liabilities, as well as the tenor. *Superintendencia de Bancos y Entidades Financieras* has yet to issue norms obliging banks to establish this type of risk control efforts and to assign part of the bank’s capital to cover these risks. *Superintendencia de Bancos y Entidades Financieras* expects to issue these norms shortly. Nonetheless, this type of regulation cannot reduce the risk involved in providing dollar loans to firms that sell in bolivianos in the local market.

### Unregulated Institutions

In Bolivia, many of the unregulated institutions are legally constituted. Unlike other countries, there is considerable information about their activities. The larger ones (13) are affiliated with *Asociacion de Instituciones Financieras para el Desarrollo Rural*, an association of micro-finance institutions. For the most part, the unregulated institutions specialise in micro-enterprise lending, both in urban and rural areas. Non-governmental organisations obtain the bulk of their funds from their parent companies, donations from third parties or loans from one of the remaining second-tier public banks. As of September 2007, the 13 entities associated to *Asociacion de Instituciones Financieras para el Desarrollo Rural* had a total loan portfolio of BOB 934 million (approximately USD120 million) distributed to 287,358 clients. There is no information on the composition of the portfolio by economic sector. Most credits are for productive purposes.

There are some institutions that offer microcredit for housing products to low-

income populations in Bolivia to finance housing upgrades. Several of these institutions are associated with the *Red Nacional de Asentamientos Humanos*, which has the mandate to promote housing solutions and improvements for low-income groups. There are nine NGOs currently associated with *Red Nacional de Asentamientos Humanos*. One of these institutions is RED HABITAT that has been providing housing credits to low-income Bolivians for over ten years very successfully. It has been funded by the government of Holland, OXFAM-Great Britain and by the Inter-American Development Bank. RED HABITAT founded *Fundación Provivienda* to provide more specialized financial services, make costs transparent and ensure the sustainability of its housing programme. Other institutions associated with *Red Nacional de Asentamientos Humanos* include *Habitat para la Humanidad* and *Fundación Pro Hábitat*. There is no public information on the housing finance products they offer.

### C. ROLE OF THE STATE IN FINANCIAL INTERMEDIATION

In addition to its role as regulator of the financial system, the Bolivian government plays an active role in the ownership of development and commercial banks that competed directly with private sector intermediaries. In the late 1980s, all these institutions had to be closed because they were bankrupt. The closure of inefficient and in some cases corrupt state-owned banks that have provided direct loans to the public was one of the most significant financial reforms to take place in Bolivia. It led to a more efficient allocation of funds in the economy and permitted the growth of alternative financial institutions such as the *Fondos Financieros*, the *Mutuales* and the Cooperative System that provide financial services to low-income people and to micro and small entrepreneurs.

The highly inefficient first-tier public

banks (*Banco Minero*, *Banco Agrícola*, *Banco del Estado* and *Fondo Minero*) were liquidated in the early 1990s, and as a result there are no first-tier public banks in Bolivia. These public banks represented an immense drain on the Treasury. Finally, the government eliminated a series of economic adjustment regulations, such as interest rate controls, high and distortionary reserve requirements, credit allocation policies, and restrictions on banking activities, including limits on multiple banking.<sup>8</sup>

Before their closure, these public sector banks represented a significant drain of scarce resources and they failed to provide an equitable distribution of funds or to promote efficiency in the allocation of resources. Unfortunately, recent governments have reconsidered their policy on the role of government-owned financial institutions and decided to keep the option of a direct state role in lending and have made moves to establish these types of institutions. Since the beginning of the decade several political groups in Bolivia have proposed the recreation of first-tier public sector development banks.

Under its National Development Plan, the current government provides a national development finance system. It created the *Banco de Desarrollo Productivo* as a joint venture corporation under Supreme Decree 28999 of 1 January 2007. It was created over the foundations of *Nacional Financiera Boliviana* which was created in October 1995 through the Central Bank Law, with the support of the Inter-American Development Bank (the Bank). The purpose of *Nacional Financiera Boliviana* was to provide credit to support the regulated financial institutions by channeling long-term funds obtained from the government and multilateral organisations. *Nacional Financiera Boliviana* started its operations in September 1996. It took over the second-tier operations that used to be managed directly by the *Gerencia de Desarrollo*, a department within the Central Bank of Bolivia.

<sup>8</sup> Bolivia has shifted from specialized commercial banking to other activities such as short and long term lending and investment banking.

As was the case with *Nacional Financiera Boliviana*, the Republic of Bolivia owns 80% of the *Banco de Desarrollo Productiv* and the Andean Development Corporation owns the other 20%. The *Banco de Desarrollo Productiv*:

- (i) is supervised by the Superintendencia de Bancos y Entidades Financieras;
- (ii) is carrying on the work of Nacional Financiera Boliviana, S.A.M., which has executed three Bank multisector global credit programs very successfully, as noted in the corresponding project completion reports; and
- (iii) has an AAA credit rating with Fitch Ratings as of March 2007.

The new *Banco de Desarrollo Productivo* is acting as the public-private mechanism for financing urban and rural productive sector development. The *Banco de Desarrollo Productivo*'s role in financing production activity is to improve the lending terms and conditions that the financial sector offers to production units. While the *Banco de Desarrollo Productivo* continues to be predominantly a second-tier institution, its law of creation allows it to carry first-tier activities that are of no interest to private financial institutions. It will use various instruments to meet existing needs in the system and plans to: (i) employ a first-tier trust fund to serve potential borrowers that the regulated financial system views as being too risky; and (ii) encourage financial intermediaries to alter their lending schemes to allow for long-term loans, interest rates aligned with business projects' rates of return, and nationwide coverage, and (iii) refrain from any involvement in cases where the private sector is providing suitable financial services. *Banco de Desarrollo Productivo* does not have a mandate to finance housing mortgages.

The government has stated that in cases where a project offers sufficient positive externalities but the private sector is unwilling to assume the associated risk, the only acceptable course of action is for the public sector to provide credit

through a first-tier institution. This is very dangerous since Latin America is plagued with numerous cases of failed first-tier public sector banks.

#### D. CAPITAL MARKET

Bolivia's capital market has had little significant impact on the country's development so far. Bolivia's stock market basically trades public debt instruments and operates as a shallow, poorly diversified money market. In 2007, Treasury paper accounted for 67% of total fixed income trading and term deposits accounted for 27%. There is very little trading in corporate paper from private issuers. The geographic scope of this open-pit exchange is limited to the city of La Paz, which gives rise to price-formation and market-access problems for other regions of the country. Given these circumstances and the degree of informality of small-scale production activities in the country, this market, in its present state, is not a useful tool for providing direct financing for production activities or to fund long-term operation, such as housing finance.

Securities trading is mainly carried out in the *Bolsa Boliviana de Valores* which is a private entity constituted for the purpose of facilitating transactions in securities and promoting the development of capital markets in the country. Shareholding is broadly distributed, including several banks, stock brokerage firms, insurance companies, business associations, and other firms and individuals. Its specific objective is to provide a safe and transparent trading place for securities. The by-laws and regulations (*Reglamentos*) of *Bolsa Boliviana de Valores*, have been approved by the *Superintendency of Pensions, Securities and Insurance*, the supervisor.

Securities markets including private and government debt, remain under-developed, lacking liquidity and transparency, attracting few participants, and offering little competition

**Table 1.6 :** Evolution of Trading Volume in the Stock Exchange (in US\$ millions)

	Equities	Fixed Income		Total Fixed Income	Other trading	Total
		Final/sale	Repos			
2003	20.2	n.a.	n.a.	1,562	36.2	1,601
2004	4.5	441	872	1,313	38.5	1,356
2005	5.1	537	807	1,344	24.9	1,374
2006	7.6	532	1,136	1,668	8.4	1,684
2007	36.8	828	1,536	2,364	3.2	2,404

Source: *Bolsa Boliviana de Valores*

in the banking system in terms of providing funds for productive investment. Short-term markets are lacking the depth, while long-term markets are non-existent. Most trading is in fixed income instruments, the bulk of which is represented by short-term repurchase operations. With the exception of banks, the main institutional investors in Bolivia are the mutual funds, insurance companies and pension fund. Stock trading is negligible, reaching 0.20% of total trading in the first eleven months of 2007.

Securities trading in the *Bolsa Boliviana de Valores* has increased steadily in recent years. Total trading in 2007 reached USD2.4 billion, 42% higher than in 2006. Most trading is in fixed income instruments, the bulk of which is represented by short-term repurchase operations. Equity trading is negligible (0.03% of the total). Trading is mainly concentrated in negotiable bank CDs<sup>9</sup> and treasury bonds. Repurchase (Repos) transactions represent about two-thirds of trading and only 25% reflect final sale transactions.

<sup>9</sup>“Bank CDs” here means what in Bolivia is referred as *depósitos a plazo fijo* (certificates of long-term time deposits).

The tenors of most Repo operations are less than one year and most of these operations have maturities between one and forty-five days. Thus, it can be said that *Bolsa Boliviana de Valores* is basically the venue for a money market, rather than a capital market. On the other hand, the concentration in short-term transactions with fixed income instruments imply that the exchange is not able to provide long-term or equity funding for productive investment.

A large percentage of Repos involve banks that use *Bolsa Boliviana de Valores* as a pseudo inter-bank money market that provides commission income to *Bolsa Boliviana de Valores*. Without this income, *Bolsa Boliviana de Valores* would probably not be able to sustain its capital market activities. These activities include the regulation and promotion of the market and the modernisation and upgrading of its facilities.

The main participants in the securities market are banks and a few institutional investors, mostly mutual fund companies (*Sociedades Administradoras de Fondos de Inversión*) pension fund administrators (*Asociación de Fondos de Pensiones*), and insurance companies. There is some direct trading by individuals, but the

bulk of the trading is done by the *Sociedades Administradoras de Fondos de Inversión*.

The main issues affecting Bolivia's securities market are the low volume of transactions and the lack of a market for private securities, particularly for equity instruments. Constraints on the development of the market include:

- (i) political and economic instability;
- (ii) underdeveloped real or business sector;
- (iii) large informality and family ownership of companies;
- (iv) lack of good financial accounting and auditing information of companies;
- (v) crowding out by government of private investment;
- (vi) incipient development of institutional investors; and
- (vii) a need for changes in laws, regulations and institutional frameworks, including better mechanisms for price information.

A large number of Bolivian companies (estimated at 70%) remain outside of the formal sector and hence registration, licensing, standards of corporate governance and tax collection. Coupled with the unreliability of financial statements, potential investors are unable to value the company, its management, its P/E ratio or other factors that would provide confidence in purchasing stock. These are major deterrents in the development of the equities market.

Another aspect arising from the widespread informality of companies and businesses is that it is difficult to enforce laws that would otherwise apply to them. This appears to add incentive to evading taxation and corporate governance. Better tax administration and appropriate tax policies would help reduce informality and increase the number of companies who might participate in the securities market.

## Chapter 2 - Description of the Housing Situation in Bolivia

### A. THE NATURE AND SCOPE OF THE HOUSING PROBLEM IN BOLIVIA.

The primary information on housing indicators in Bolivia is obtained from Census data and from a series of national surveys. The last Census of Bolivia took place in 2001. The previous two Censuses took place in 1976 and 1992. Bolivia's urban population grew by 4.2% each year between 1976 and 1992, rising from 1.87 million to 3.6 million, while the rural population remained relatively stable. Between 1992 and 2001 the annual growth of the urban population was 4.3% and the population living in urban areas reached 5.2 million. The annual growth of the population of Bolivia was 2.7% between 1992 and 2001, much higher than the growth rate of the previous intercensal period that was 2.1%. The main factor explaining growth in the cities is migration from the countryside as a result of structural transformations

in the economy. Census figures also show a significant growth in the number of households: 4.3% in urban areas and 1.9% in rural areas.

Between 1976 and 2001, the urban population increased 168%, while the rural population only increased by about 16%. There has been a steady and almost permanent urban growth in the 25 years between the 1976 Census and the 2001 Census, at a growth rate close to 4% per year as a national average and reaching beyond 5% in three of the main urban areas (La Paz, El Alto and Santa Cruz). By contrast, growth in the rural sector has been almost negligible.

Common in other Latin American countries, this growth has been haphazard and has not been accompanied by the necessary investment in public services. Although exact figures are unavailable, estimates suggest that about one third of the housing built each year is unofficial, contributing to the formation of unregulated settlements. In other words, a large part of urban growth is accounted for by unauthorised

Table 2.1: Demographic Data and Main Urban Centers (in units)

Population	1976	1992	2001 (*)
Total Population	4.613.486	6.420.792	8.274.875
Urban Population	1.925.840	3.694.846	5.165.230
Rural Population	2.687.646	2.725.946	3.109.645
La Paz	539.828	713.378	792.499
El Alto	106.072	425.504	694.749
Santa Cruz	254.682	697.278	1.114.095
Cochabamba	237.430	550.444	778.422

(\*) Preliminary data of the 2001 National Census

Source: INE. National Census



Table 2.2: Intercensal Evolution of Population and Households

	Population (in millions)	Intercensal Annual Growth (%)	Number of Houses (in millions)	Number of Households (in millions)	Intercensal Annual Growth of Households (%)
<b>1976</b>					
Total	4.6	N.A.	1.1	1.0	
Urban	1.9	N.A.	0.4	0.4	
Rural	2.7	N.A.	0.7	0.6	
<b>1992</b>					<b>1976-1992</b>
Total	4.6	2.1	1.7	1.4	2.3
Urban	1.9	4.2	0.9	0.8	4.4
Rural	2.7	0.04	0.8	0.6	0.3
<b>2001</b>					<b>1992-2001</b>
Total	8.3	2.7	2.3	2.0	3.3
Urban	5.2	3.6	1.3	1.2	4.3
Rural	3.1	1.4	0.9	0.8	1.9

Source: INE, Census Information

developments and many (illegal), poor quality buildings, and a lack of community spaces and adequate urban services.

With a 64% urban population, Bolivia is not as urban as some of its South American neighbors (Argentina 89%; Chile 87%). As cited by the World Bank, two characteristics of the urban population in Bolivia worth highlighting are:<sup>10</sup>

- (i) that the levels of urban poverty are extremely high both in relative and absolute terms. Despite fluctuations in the urban poverty rate during this period, it was higher in 2002 at 53.9% than it had started in 1993 at 52%. In terms of absolute numbers, over half the poor (2.9 million) and 43% of the extreme poor (1.4 million) were living in urban areas in 2002, up from one third (1.8 million) and one fourth (800 thousand) in 1997, respectively;<sup>11</sup>

- (ii) that the country's rate of urbanisation is rising rapidly, from 56% in 1990 to 64% in 2005. This is due to an increased rural-to-urban migration, including from small cities and mining areas to main urban centers since the late 1990s. Between 1997 and 2002 urban migration doubled, as metro areas drew in low-income migrants coming from all regions at a current average annual growth rate of 3.2%.

As indicated in the Inter-American Development Bank Housing Policy Support Programme Document of 1998, the process of urbanisation and informal housing construction in Bolivia offer two advantages over other Latin American countries. The first is that the city lots have generally been purchased and have not been illegally invaded. The second is that many dwellings occupied by the poor are built with adequate materials (mainly adobe), which makes them more resilient than is the case elsewhere.

<sup>10</sup> Project Appraisal Document for Urban Infrastructure Project, October, 2006.

<sup>11</sup> 2005 World Development Indicators

**Table 2.3: Evolution of Main Housing Indicators**

	Total Households (In Millions)	Population In Households (In Millions)	Average Households Size (Units)	Percentage Households Lacking		
				Tap Water	Sewerage	Electricity
1976	1.04	4.5	4.35	60.7	87.6	65.7
1992	1.44	6.3	4.36	46.1	79.4	44.5
2001	1.98	8.1	4.09	35.6	70	35.6

Source: INE

However, in general low-income settlements or districts (barrios) need to be formalised with the respective municipal government and transactions officially registered to legalise ownership. The “illegality” of these areas limits the activities of public utility companies and discourages families who live there from making investments in urban development. The absence of deeds means that residents cannot use their properties as security to obtain loans. Unauthorized occupation also restricts the amount of space available for schools, parks and community centers.

The comparison of the results of the last three Censuses in Bolivia (1976, 1992 and 2001) show the evolution of the main housing indicators. The figures show not only the magnitude of the increase in the population and naturally in the number of households, but also in the improvement to the coverage of basic services to households. Access to basic services however, continues to be low in Bolivia, even by Latin American standards, particularly in rural areas. In 2001 about 35% of households lacked tap water, 70% lacked sewerage and 36% had no electricity.

In terms of housing ownership, the 2005 National Household Survey showed that 64.6% of Bolivian households owned their houses, a percentage that has remained almost constant since the 1992 census. Around 15% of

households are renters and 10% use property borrowed from family and friends. These percentages do not appear to be low, however, they do not always have adequate building standards, lack basic urban services and a large number do not have adequate titling on their property.

**Table 2.4: Housing Ownership in Bolivia**

	1992 Census	2001 Census	2005
Own	65.5	66.8	64.6
Rent	16.4	16.5	15.3
Lent	8.1	6.7	10.7
Other	10	10	9.4
Total	100	100	100

Source: INE, Censal Information (1992, 2001) Household Survey (2005)

Due to the pressing need for housing for migrant families with low purchasing power and unstable incomes, and due to the lacklustre response by formal real estate and financial markets to their requirements, informal urban settlements have emerged. The poor market response is due to a combination of factors, including:

Table 2.5: Access to Services in Households (2001)

	Number Of Households (In Millions)	Percentage Households Lacking:			
		Tap Water	Lacking Sewerage	Electricity	Own Bath
Urban	1.21	17.1	52	105.	17.6
Rural	0.77	70.4	98.5	75.3	66.9
Total	7.98	37.8	70	35.6	36.7

Source: INE

- (i) lack of a legal framework for urban development that properly defines the powers and responsibilities of the different levels of government and ones that guide urban growth from the standpoints of land use, standards, etc.;
- (ii) lack of an adequate legal framework for the real estate and housing finance markets that could encourage a larger private supply of housing solutions;
- (iii) the institutional weakness of the different public players such as the municipalities, whose requirements and slow procedures tend to make real estate more expensive, and a
- (iv) Real Property Rights Registration Office is antiquated in its organisation and does not provide sufficient certainty regarding property titles; and
- (v) a deficient and poorly targeted public policy for financing housing. These problems have been identified in various housing sector studies in Bolivia, and despite some efforts at resolving them, remain as the main bottlenecks to the development of more efficient housing and housing credit markets in the country.<sup>12</sup>

The 2001 Census shows the significant differences in access to services of the urban and rural population in Bolivia. It indicates that for urban areas, 17.6% have no access to tap water; 52% have no sewerage; and 17.6% lack a bathroom inside the house. These percentages are significantly higher in rural areas, where 70.4% of households lack tap water, 98.5% lack sewerage and 66.9% do not have baths inside their houses.

More recent data on access to urban services obtained from the 2005 Household Survey shows some improvement. For instance, the percentage of total households lacking tap water dropped from 37.8% to 29.6% and households without sewerage declined from 70% to 63.6%.

Table 2.6: Access to Services in Households (2005)

	Percentage of Households Lacking		
	Tap Water	Sewerage	Electricity
Total	29.6	63.6	31.7
Urban	10.7	44.7	10.1
Rural	61.2	98	71.1

Source: INE, Encuesta Continua de Hogares (2005)

<sup>12</sup>For instant: IDB's Housing Policy Support Program Document (1998) or Morales (2003).

Despite improvements to basic services, indicators are still well below the Latin American average. In the 1990s, Bolivia privatised two water supply services, La Paz/El Alto and Cochabamba. In the case of La Paz/El Alto, the rate of new connections made during the nine years of the private concession, was significantly higher than the rate of coverage expansion achieved by the municipal water company during the period preceding the concession, and labour efficiency, service continuity, and water quality, have been significantly better than in virtually all municipal water companies. High connection charges for new users wishing to connect to water and sewerage services presented an important obstacle to expanding coverage, particularly among the poor in El Alto. Nationwide, unequal access remains high and the government is struggling to find an effective mechanism for providing services to poor households. A recent World Bank report<sup>13</sup> claims that coverage stood at 93 percent (water) and 80 percent (sanitation) for the richest income quintile, but only 38 percent (water) and 14 percent (sanitation) for the poorest quintile in 2003. Similarly, household electricity services reached 97 percent of the richest quintile but only 37 percent of the poorest. In the same year, the gap in access to piped water between urban and rural areas was staggering: 86 percent in urban but only 28 percent in rural areas. These inequalities have caused resentment and protest from the excluded population and has led to a widespread belief that the sector reforms undertaken since the mid-1990s have failed to address the needs of Bolivia's poor.

The *Instituto Nacional de Estadística* of Bolivia produced a study based on the 2001 Census to quantify the housing deficit in the country.<sup>14</sup> The study estimated the quantitative and qualitative housing deficits in the country, reaching the conclusion that there is an estimated housing deficit of 1.05 million houses

that represent 53% of total households.

The quantitative deficit is measured by the number of households that do not have an independent house while the qualitative deficit takes into account the quality and condition of houses (including construction materials) and its access to basic services. The bulk of the estimated deficit is qualitative (over 80%).

**Table 2.7: Estimation of Housing Deficits (2001)**

	Number of Houses
Quantitative Deficit	193,538
Qualitative Deficit	855,238
Total Deficit	1,048,776
% of Total Households	53.03%

Source: INE (2002)

It is important to bear in mind that a housing deficit is not necessarily an unmet demand, since a large percentage of households cannot afford to buy houses. This deficit is synonymous with potential demand for housing rather than with effective demand.

On the other hand, the main characteristic of the housing construction process in many Latin American countries, including Bolivia, is self-construction in stages. Thus housing credits can be requested to purchase a new or existing home or to introduce home improvements or expansion. Morales (2002) estimated that 61% of houses in Bolivia have problems that would require a total of USD2,639 million to fix. The same study indicated that the quantitative housing deficit was 103,600 houses. He estimated a total cost of USD726 million to eliminate that deficit (at a unit cost of USD7,053).<sup>15</sup>

<sup>13</sup> Interim Strategy Note for the Republic of Bolivia, October 4, 2006.

<sup>14</sup> INE (2002) "Bolivia: Carencias, Déficit Habitacional y Acceso a Servicios Básicos".

<sup>15</sup> He assumed a house with 100 square meters of land, and sixty square meters of construction. Construction cost of USD80 per square meter and cost of land USD2,300.

Assuming that migration to the cities and urban demographic growth maintains its levels, one can expect the annual demand for housing to grow steadily from its current level, to an average of about 50,000 new houses per year. This demand is below household formation in Bolivia. Depending on the average cost per house, including the land value and public services, annual housing investment needs could reach between USD200 and USD400 million. If adequate policies are put in place, this could add a strong value and improve local employment to the extent that these factors are part of more than 70% of construction costs.<sup>16</sup>

Preliminary estimates of the Housing Ministry indicate that close to 40% of housing lacks adequately recorded property titles. This represents around 500,000 houses. If the replacement unitary value of such housing is close to USD5,000 (including the value of the land, construction and public services), total investment in housing that lacks the necessary legal security to participate in market transactions could reach USD2,500 million<sup>17</sup>. This figure constitutes close to two thirds of the country's public foreign debt, the total of savings and fixed term deposits made by the private sector in the banking system, and is close to the current total amount of private savings in the pension funds (*Administradoras de Fondos de Pensiones*). In addition, a significant amount of savings and investments belong to those sectors with lower economic resources to which the micro and small size companies belong. Thus, its legalisation would facilitate protecting the assets of the poorest sectors and incorporate them to the market.

While resolving the problem of the housing deficit is an important objective of any housing policy, it appears that the main problem facing most households in Bolivia is related to three fundamental aspects:

<sup>16</sup>"Bolivian Housing Policy", 2002.

<sup>17</sup>Based on preliminary data of 2001 National Census (INE). It does not take into account the USD10,000 cost of new houses estimated by the MVSb, because the existing houses in poor sectors do not meet the characteristics of the houses proposed by the MVSb.

- (i) quality of housing,
  - (ii) quality of construction materials, and finally,
  - (iii) quality of available basic services.
- Undoubtedly, the main limitation of Bolivian households relates to the poor access to basic services (water supply, sewerage and electric energy). In addition, there is a need to improve the property registration system.

## B. SOCIAL CONDITIONS

Bolivia is one of the poorest countries in Latin America. It faces persistently high levels of poverty and inequality. In 2002, 65 percent of the population was living in poverty and nearly 40 percent of the population was living in extreme poverty. In addition, income distribution in Bolivia is one of the most unequal in Latin America. Income inequality increased significantly during 1997-2002, and Bolivia currently has a Gini coefficient of about .58, making it one of the countries with the highest income inequality in the region – and in fact the world.

Market-oriented reforms instituted in the late 1980s and early 1990s helped bring about a decline in income poverty, both in absolute numbers and in severity, but that progress has been reversed by the economic shocks of the late 1990s. Between 1999 and 2002, poverty increased from 62 percent to 65 percent, and extreme poverty rose from 36 percent to 37 percent. Poor urban households have been particularly affected. Urban unemployment increased from 6 percent to 9 percent to 9 percent, and urban poverty reverted to the levels of the early 1990s.

As shown in Table 2.8, a large percentage of Bolivian households cannot afford decent housing. There is no household income information to corroborate this fact. Poverty is more pervasive in rural areas where almost 55% of the population is poor and 82% is

Table 2.8: Poverty Indicators, 1999-2002

		Types of Poverty	
		Poverty	Extreme Poverty
National	1999	62.0	35.8
	2000	65.5	39.2
	2001	64.4	37.3
	2002	64.6	36.8
Urban	1999	51.4	23.5
	2000	54.5	27.9
	2001	54.3	26.2
	2002	53.9	25.7
Rural	1999	80.1	56.7
	2000	84.5	58.7
	2001	81.1	55.6
	2002	82.2	54.8

Source: 2005 World Bank Poverty Assessment, based on household surveys.

extremely poor. Data from Households Surveys conducted by the National Statistics Institute shows that the average % share of household income for 1994-2004 for the lowest 40% of families was 7%, while the share for the highest 20% of households was 63%. Extreme poverty is measured as families which live with less than

one dollar per day per capita while poverty is measured with incomes below 2 dollars per day per person.

A recent study by *Unidad de Analisis de Politicas Economicas*<sup>18</sup> on poverty and inequality in municipalities, show that there are significant differences between per capita consumption levels not only between urban and rural areas, between municipalities, but also within municipalities. Using 2001 household surveys data, they determined that average per capita monthly consumption in urban areas ranged between BOB456 in the department of Santa Cruz and BOB262 in the department of Beni while in rural areas Pando had the highest per capita consumption at BOB194 per month, compared to only BOB89 in Potosí. The exchange rate was BOB6.80 per dollar in 2001.

With regard to employment statistics, in 1996 *Unidad de Analisis de Politicas Economicas* published a study that compared employment information of several *Instituto Nacional de Estadística* household surveys carried out between 1996 and 2005. The results are shown in Table 2.9. The figures show that open unemployment in Bolivia accounts for around 8% of the labor force. Open unemployment includes all those people actively looking for a job. In addition to that, underemployment is pervasive in Bolivia, amounting to around

Table 2.9: Unemployment and Underemployment Data (in percentages)

	1996	2000	2001	2002	2003	2005 (p)
Open Unemployment	3.1	7.5	8.5	8.7	8.7	8.2
Visible Underemployment	10.4	9.3	12.4	11.9	12.0	15.1
Invisible Underemployment	9.8	18.0	12.8	15.4	15.9	12.3
Total	23.3	34.8	33.7	36.0	36.6	35.6

Source: UDAPE (2006)

<sup>18</sup> "Pobreza y Desigualdad en Municipios de Bolivia", UDAPE, 2006.

27% percent of the labour force in 2005 compared to 20.1% in 1996. Underemployment statistics include what is referred to as visible underemployment (persons that work less than 40 hours per week and are willing to work more) and invisible underemployment (those persons that have wages or salaries below that required to purchase the basic foodstuff basket).

### C. THE HOUSING MARKET IN BOLIVIA

Significant population growth during the past century has led to land occupation, the establishment of human settlements, and an urbanisation that has resulted in the construction of an average 35,000 additional urban housing units per year over the last 25 years in Bolivia. Much of this housing however, does not comply with urbanisation norms, i.e., construction and basic service standards.

Bolivia currently requires some 60,000 additional houses every year simply to accommodate additional household formation. An estimated 50% of this demand is met through the informal markets. These markets exhibit the same inefficiencies as in most Latin American Countries:

- (i) they produce low standard housing, often in environmentally fragile zones;
- (ii) due to lack of access to regular financing schemes, home improvements take years, postponing the benefits of a decent place to live for slum dwellers;
- (iii) the improvement process is slowed down also by the titling issue: most informal housing units do not have formal title deeds and,
- (iv) although expulsions have not been prevalent in Bolivia, occupants are reluctant to invest their savings in what they consider an insecure investment; similarly, municipal utilities resist as long as they politically can before ceding to pressure by slum dwellers to install basic services – all the

more so when a house without a title does not bring in revenues from local real estate taxes.

We can assume that most households are covering their housing needs through a self-construction process with the consequence that all their savings are tied up in this building activity for years (sometimes up to 20 years). Their savings are not mobilised and all these households live for years below the minimum living standard. If we look at it from an asset management point of view, and we estimate the value of all existing urban housing currently under construction in Bolivia, we may be surprised by the high amount of wealth relative to the Gross National Product that is hidden there. This enormous wealth is often not recognized by macro-economists who focus on annual flows and largely ignore the process of wealth creation. At present, in Bolivia, most of the wealth created in the informal housing sector is under-utilized, under-leveraged and often invisible for transactions in the formal sector.

The formal housing sector (in which housing built by residential developers is purchased with mortgage-backed lending) is characterised by high housing prices and an extreme concentration of beneficiaries within the population's highest income brackets. The factors explaining this situation are all too common: scarcity of urban land; exaggeratedly tight land development regulations; limited competition between suppliers; implicit collusion between builders, developers and financiers; and limited access to the formal housing finance system. Formal mortgage finance institutions do not finance, on their own (i.e. without a public credit risk guarantee), households earning less than USD400 a month. Formal, private housing finance is therefore limited to the top 10 to 15% of the population. A series of structural problems combine to create this state of affairs: the endemic scarcity of long-term funds is exacerbated by

a disorganised primary mortgage market and an expensive system of inefficiently-delivered, poorly-targeted subsidies.

Housing production and cost statistics are very poor in Bolivia. There is no publicly available information on housing prices and housing construction costs by cities, rural and urban areas, or even for the nation as a whole. There is no information either on estimated monthly payments for mortgages and rental costs. Furthermore, there are no statistics on land supply for housing development, other than the general perception that speculators have either purchased or been granted title over property surrounding the large cities, making it very difficult for municipalities to provide urban land for housing development to low income dwellers.

In Bolivia, access to land and housing property rights do not always comply with formal norms. The current mechanism to access land and housing property rights do not address increased flows of migration; they do not consider systems to absorb the informal norms of land occupation nor the development of informal construction for the purposes of housing. Informal institutions emerged to address access to land and urbanisation which constituted the framework of a system that met the huge housing demand generated by migration.

High transaction costs associated with compliance and enforcement, have led migrants to follow cheaper informal mechanisms. The combination of a large number of properties without adequate titling and the lack of land in the hands of municipalities limits the availability of land with urban vocation. This has led to the invasion of land and fraudulent sales promoted by private speculators. In addition, municipal red tape has led users to buy land from agricultural communities located in suburban areas. This land was sold to speculators without observing urbanisation and housing regulations. The system of

property rights does not provide adequate legal security for transactions and investment. The system does not generate information to the market, public administration or business. This description is important because it is estimated that around 40% of urban properties lack any legal certainty. This uncertainty generates negative externalities such as:

- (i) the existence of a large number of property rights conflicts, giving rise to judicial litigation and court backlog;
- (ii) lack of incentives to invest in housing;
- (iii) a drop of land market prices or the impossibility to use them as warranty to obtain credit;
- (iv) insecurity in acquiring rent or transfer, among others.

There are many companies and general contractors that operate on the formal market for the construction of middle- and high-cost housing. Residential developers operate particularly in Bolivia's large cities (La Paz, Santa Cruz and Cochabamba). The price per square meter of an apartment in these cities can vary between USD400 and USD800 depending on the location of the property and the quality of the construction. These prices are high by Bolivian standards, but not when compared to prices in neighbouring countries.

Informal housing in areas that lack public services typically begin with a small shack or hut built by the owner at the back of a lot to shelter his family. As income permits, the owner buys materials and stores them on the lot so that he can start building a permanent house on the front part. The structure is normally 20 m<sup>2</sup> and is expanded according to the need and financial means. The building is done by the family or through community effort. The original structures lack proper support and the roofs are not impermeable.



### Housing Prices and Affordability

In analysing affordability, it is necessary to compare income and housing price information with the cost of borrowing money. There is no updated public information on the structure of the population in Bolivia by income level or about house prices in the primary and secondary markets. Without this information it is not possible to analyse housing affordability in Bolivia, and it would be difficult to design a coherent housing policy aimed at attacking affordability problems of lower income households.

The Inter-American Development Bank (1998) estimated that about two-thirds of the Bolivia's households could not afford a simple housing solution for USD6,000 at the typical financial conditions available in the market (15 years credit at 9% interest rate).

### Market Transactions

There are five main types of transactions performed on the formal real estate market in Bolivia: purchase/sale, rental, antichresis, and leasing. All these types of transactions, with the exception of antichresis exist in other markets and therefore do not require an explanation.

Antichresis is a form of contract in which an interested party makes a loan to the owner of a property, generally in dollars, in exchange for the use of the property, to be repaid at the end of the agreed term (generally two years) without interest. This instrument is used, in part, owing to the weakness of eviction laws. Once this failing in rental law is corrected, considerably less use of this form of contracting is expected. The practice of antichresis, originally applied to farms, has been extended to urban area, as have mixed contracts (payment in antichresis plus a monthly rental) which are approaches that limit access to the middle and upper income segments. They are widely used because of the lower risk and the better legal coverage they provide for the landlord than for the tenant.

## D. THE CONSTRUCTION INDUSTRY

There is scarce public information on the construction industry in Bolivia. There is an association of builders called *Cámara Boliviana de Constructores* that has over 700 member building companies nationwide. It publishes a magazine but it is only available to members or on subscription. According to *Cámara Boliviana de Constructores*, based on *Instituto Nacional de Estadística* statistics, the construction industry had an annual average growth of 3.3% between 1990 and 2005. During that period overall Gross Domestic Product grew annually by 4.0% on average. There is a strong correlation between overall Gross Domestic Product growth and growth of the construction sector in Bolivia. The highest growth of the construction sector was 16% in 2002 due to the construction of the *Yacuibe-Rio Grande* gas duct.

*Cámara Boliviana de Constructores* also reported that private investment in the construction industry in Bolivia, with the exception of housing, is heavily dependent on public sector investments. Around 73% of non-housing construction investment is related to public projects. Housing construction has shown a positive but moderate development during the past ten years according to *Cámara Boliviana de Constructores*, but it has not provided supporting statistics. The departments of La Paz, Santa Cruz and Cochabamba are the most active in housing projects. *Cámara Boliviana de Constructores* also estimated that 66% of houses are built in urban areas and 34% in rural areas. It also stated that the Government's National Housing Plan called for a USD80 million investment in house construction for 2007-2008. There is no public information on the investment level actually attained in 2007.

There is no public information on new housing production at all, much less distinguishing between public and private housing. The public sector is not currently engaged in direct housing construction.

## Chapter 3 - Evolution of Housing Finance and the Driving Forces for the Development of Housing Finance in Bolivia

### A. THE CURRENT STATE OF HOUSING FINANCE IN BOLIVIA

#### Structure and Evolution of Housing Credit

Different institutions are involved in financing housing in Bolivia. This includes intermediary credit institutions composed of commercial banks, savings and loan mutuals, cooperatives and, to a lesser extent, private “Financial Funds” and unregulated non-governmental organisations. All of these are private institutions. Public involvement in direct lending for housing, when attempted in the past, has always failed. Currently there is no government-owned institution providing direct housing credit. In 1992 the government established the National Low-Cost Housing Fund, which was later converted into another institution and afterwards dismantled as a result of changes in housing policy that will be discussed later.

All mortgage credit provided in Bolivia occurs in the primary mortgage market since there is no secondary mortgage finance market. Financial institutions (mostly banks) originate the mortgage loans and keep them on their books. There is no interest on the part of financial institutions to sell portions of their mortgage loan portfolio in the secondary market. The main reason for this is the very high liquidity in the financial system: if they were to sell the loans they would not have any other use for the funds.

The main players in the housing finance market of Bolivia are the commercial banks which account for 71% of the stock of mortgage credits in the country. There is a significant concentration in the mortgage business since the three banks with the largest mortgage portfolios hold 68% of the total mortgage portfolio of commercial banks, and 49% of the mortgage portfolio of the financial system as a whole. The percentage of households with mortgages is estimated to be quite low, although there is no formal information because the Superintendency of Banks and Financial Entities does not collect or publish information about the number of new mortgage credits. There is no information either about the structure of mortgage credit by loan size or by income level of borrowers. This lack of information does not permit an in-depth assessment of housing finance in the country. The only information available refers to the stock of mortgage credits, both in terms of USD outstanding and number of credits. Thus, it is not possible to do a comprehensive analysis of the availability of housing finance in Bolivia and of the main issues affecting access to mortgage credit. Informal conversations with bankers and economic analysts in Bolivia lead one to the conclusion that the possible market for new mortgage loans is huge since it is estimated that most families who own homes in Bolivia do not have any kind of mortgage on their properties.

It is interesting to note however, that Bolivia has a relatively high ratio of mortgage credit to Gross Domestic Product when compared to other countries in the region. Bolivia’s ratio of

Table 2.9: Evolution of Housing Mortgage Loans

Year	2001	2002	2003	2004	2005	2006	2007
Month	Dec	Dec	Dec	Dec	Dec	Dec	Nov
Commercial Banks	332.9	365.2	372.9	409.9	488.2	560.0	642.4
Cooperatives	52.6	40.4	44.0	43.1	47.1	49.7	54.5
Financial Funds	4.0	7.6	10.0	12.9	9.1	13.9	13.8
Mutual System	276.3	256.5	236.4	217.2	204.0	197.0	195.4
National Financial System	665.6	669.7	663.3	683.0	748.3	820.6	906.1

Source: SBEF

mortgages to Gross Domestic Product stands at 8% compared to the region's average that is below 5%. Each percentage point increase in mortgage loans as a fraction of Gross Domestic Product represents USD90 million more mortgages issued.

Table 3.1 shows the evolution of housing mortgage loans by major financial institutions and of the regulated financial system as a whole (the "National Financial System"). As mentioned in a previous chapter, cooperatives refer to credit cooperatives and are comparable to a typical credit union in other countries. The members of the credit cooperatives are the owners of the institution. The regulated credit cooperatives, as credit unions, are allowed to accept deposits from its members. The mutuals or Savings & Loans are non-profit institutions that specialise in housing credits although recently they are also involved in granting personal or consumer loans to its clients. The *Fondos Financieros* are like mini-banks that were created to provide loans to small and micro enterprises. In the first chapter of the report there is a more detailed description of each of these types of non-bank institutions and of the financial activities that they are prohibited from undertaking. The major difference among the various types of financial

institutions in Bolivia, relate to the minimum capital requirements and the type of financial services they are authorised to provide.

The total stock of mortgage loans in Bolivia as of November of 2007 amounts to USD906.1 million, of which USD642.4 million 71% as been provided by commercial banks. The other important players in the mortgage market are the Savings & Loans (*Mutuales*) that had USD195.4 million in credits (21%). There is a large Mutual that is the fourth largest mortgage lender of the financial system. Cooperatives account for 6% of the mortgage credit market and *Fondos Financieros* are a minor player with 1.5% of total loans.

Since 2001, mortgage credits in Bolivia have grown at a compounded annual rate of 5.3%. The stock of mortgage credits of commercial banks grew at an average annual rate of 11.6%, while mortgage credits from cooperatives grew by only 0.60% and the mutual system declined by 5.6% on an annual basis. The stock of mortgage loans of Financial Funds grew at a compounded annual rate of 23%, the highest of all types of intermediaries, but they account for a small percentage of total mortgage credit.

Table 3.2: Annual and Compounded Growth of Mortgage Credits

Year	2002-01	2003-02	2004-03	2005-04	2006-05	2007-06	CAGR
Commercial Banks	9.73 %	2.09 %	9.94 %	19.09 %	14.72 %	14.71 %	11.58 %
Cooperatives	-23.14 %	8.99 %	-2.17 %	9.39 %	5.59 %	9.53 %	0.60 %
Financial Funds	91.59 %	32.02 %	28.60 %	-29.50 %	52.85 %	-0.56 %	23.14 %
Mutual System	-7.14 %	-7.84 %	-8.15 %	-6.08 %	-3.42 %	-0.81 %	-5.61 %
Total National Financial System	0.62 %	-0.96 %	2.97 %	9.56 %	9.66 %	10.41 %	5.27 %

Source: SBEF

The stock of housing loans (in number of credits) stood at 44,402 credits as of November 2007. There is no information about the number of new credits granted each year and it cannot be extrapolated from the table above because the changes in the stock of credits include not only new credits but also loans repaid. The figures show that during the past six years there have not been significant changes in the stock of number of credits. As a matter of fact, the number of credits dropped from 49,952 to 44,402 in this six year period due to a reduction in the stock of mortgages of cooperatives and Mutualls probably due to increased competition from banks which are able to provide lower cost mortgages to the higher income population.

It is also interesting to see that in terms of the number of housing credits, the main players are the Banks followed distantly behind by the Mutualls, which have lost market participation. The number of housing credits of banks has increased from 16,402 at the end of 2001 to its current level of 21,487. As of November 2007, commercial banks accounted for 48% outstanding mortgage loans in Bolivia compared to less than 33% in 2001. The Mutualls who were the larger lenders in terms of the number of credits in 2001, now only

represent about 29% of total mortgage credits. Bankers indicated that the significant growth in the number and amount of mortgage credit reflects the large liquidity existing in the system and the fact that there is not much demand for other types of credit in Bolivia.

The following conclusions can be made from these trends:

- (i) the bulk of housing finance is going to the higher income population which is served by the banks,
- (ii) bank mortgage portfolios have become the single most important credit product for banks (about 25% of total bank credit is directed to mortgage finance), and
- (iii) the high-end customers of Cooperatives and Mutualls appear to have shifted to the banks attracted by better credit conditions.

According to Alaiza (2007), the Mutualls are the type of financial intermediary most interested in housing loans, with 92% of its total loan portfolio dedicated to housing. Cooperatives have 25% of their loan portfolio invested in housing credits, while banks have 12% and FFPs *Fondos Financiero* only 2%.

As of end-November 2007 the average value of an outstanding mortgage issued by a bank

was USD29,000 compared to USD15,000 for a Mutual and USD20,000 for the financial system as a whole.

There is no information about the loan portfolio segmented by loan maturities and interest rates. Furthermore, there is no publicly available information on the different loan underwriting criteria of the various types of financial intermediaries.

The quality of the mortgage portfolios in Bolivia has improved significantly in the past few years, reflecting a trend similar to that experienced by the portfolio as a whole. The improvement in credit quality reflects the good performance of the economy in recent years. Loans are classified as overdue after 31 days of delay in mortgage payment. The whole loan is classified as overdue. The total system as a whole shows a 4% level of overdue mortgage loans.

Overdue loans vary by type of intermediary: Financial Funds have the best portfolio (1.3% of overdue loans) followed by commercial banks with 2.7% and cooperatives with 3.2%. Mutuals have the worst mortgage portfolio with overdue credits amounting to 8.8% as of November 2007. The level of overdue mortgage loan has declined steadily since 2001 when it stood at 14.9% - very high by international

standards. One reason why Financial Funds have the best portfolio is due to the fast growth of its portfolio in recent years, it has not yet matured and therefore has a better quality than otherwise.

In terms of the number of credits, as of November 2007 there were 2,220 overdue housing mortgage credits. These figures represent around 5% of the stock of housing mortgage credits as of the same date. The figures also show a significant reduction in the number of overdue mortgage loans, which declined from 8,201 credits as of December 2001.

### Mortgage Credit Underwriting Procedures

*Superintendencia de Bancos y Entidades Financieras* establishes basic parameters for the issuing of mortgage credits by financial institutions. These parameters intend to safeguard the solvency of financial institutions. Each financial institution adds some supplementary condition or requirement to its mortgage origination criteria. In general, the following requirements are typical of the mortgage industry:

- (i) clients are required to have a savings or

**Table 3.3: Evolution of Number of Housing Loans** (Stock at end year in units)

Year	2001	2002	2003	2004	2005	2006	2007
Month	Dec	Dec	Dec	Dec	Dec	Dec	Nov
Banks	16,402	19,242	15,912	16,8884	19,429	19,579	21,487
Cooperatives	9,345	6,236	6,272	5,687	5,889	5,920	5,927
Financial Funds	210	553	758	915	604	1,126	945
Mutuals	25,259	22,620	19,691	17,471	15,118	13,968	12,919
Total	49,952	48,651	42,633	40,957	41,040	42,648	44,402

Source: SBEF

current account for at least three months prior to submitting an application for a loan with a minimum balance which varies between institutions, and

- (ii) they have to provide some certification of minimum income and proof of repayment capacity. The large banks have been operating generally with borrowers where the family income is above USD1,000, although some banks have had lower minimum income requirements. Due to increased competition in the industry and a perceived saturation of mortgage clients in the high end of the market, banks are starting to look at lower-income clients (USD400 per month and up).

Most of the banks interviewed said that they apply conservative lending policies to their respective residential mortgage programmes, although the level of sophistication in this respect varies, depending, to some extent, on current exposure to the market. The following is considered:

- (i) the degree of mechanisation in this area, and
- (ii) the application (or lack) of vigorous credit-checking procedures and analysis. It is difficult to state precisely, the proportion of financial institutions that carry out the

individual specific procedures described below.

Several banks have introduced credit scoring as an additional layer to the traditional underwriting mortgage approval process. One bank referred to using credit scoring as an additional tool when deciding whether to waive off conventional lending criteria in individual cases.

Few financial institutions appear to have a sophisticated “MIS” function, which can provide a detailed breakdown of common characteristic analysis of mortgage portfolios including, for example, a study of delinquent loans sorted by geographical areas particularly in relation to their arrears profile. Large banks do have such systems.

Most of Bolivia’s financial institutions have procedures that allow a limited number of exceptions of the approval process made on a limited basis, generally as a percentage of total transactions approved (say 10%) and subject to senior management approval and/or based on credit score.

Mortgages as real-property guarantees have widespread use on the real estate market. However, some gaps in legislation and certain practices have limited wider use of mortgages, particularly the time it takes to register them in

**Table 3.4: Evolution of Overdue Mortgage Loans (in Percentages)**

Year	2001	2002	2003	2004	2005	2006	2007
Commercial Banks	13.14 %	8.54 %	6.53%	5.00%	3.78%	3.00%	2.67%
Cooperatives	21.70%	9.06 %	6.03%	7.52%	5.76%	4.02%	3.23%
Financial Funds	11.19 %	5.89 %	3.36%	2.68%	2.98%	3.76%	1.32%
Mutuals	15.86%	13.83%	11.51%	10.19%	10.25%	9.45%	8.79%
Total Financial System	14.93 %	10.97%	8.22%	6.76%	5.66%	4.62%	4.00%

Source: SBEF

**Table 3.5: Evolution of Number of Overdue Housing Loans** (Stock at end year in units)

Year	2001	2002	2003	2004	2005	2006	2007
Month	Dec	Dec	Dec	Dec	Dec	Dec	Nov
Banks	1,686	1,319	15,912	1,030	788	652	633
Cooperatives	1,857	6,236	6,272	446	431	231	193
Financial Funds	15	33	758	34	36	38	22
Mutuals	4,643	3,471	19,691	2,605	1,823	1,051	1,372
Total	8,201	5,337	42,633	4,115	3,078	2,422	2,220

Source: SBEF

the Real Property Rights Register (a necessary condition for priority status in the case of default), the time it takes to obtain information from the Cadastre System of the Municipality with regard to the parameters of the property and the difficulty in foreclosing and evicting people in the case of defaults all adding to the cost in time, fees, and expenses needed to actually recover a property.

#### Overdue Loan Recovery and Execution of Guarantees

Execution of overdue loans is more expedient and simple in Bolivia than in other countries in the region. There is a figure called *Juicio Coactivo* which provides an accelerated judicial resolution that facilitates loan execution. When obtaining a mortgage loan, borrowers have to agree to forego the possibility of going through regular judicial procedures. Under *Juicio Coactivo* a financial institution can execute a loan in less than six months compared to more than one year in the case of the regular procedure. Another advantage of *Juicio Coactivo* is that it lowers the cost of mortgage execution to financial institutions. The estimated average

cost of executing an overdue loan is around USD2,000 compared to more than USD5000 for a regular trial. Nonetheless, in recent years the “*Juicios Coactivos*” are being increasingly being challenged in the courts, and some financial institutions are shying away from using them. Furthermore, one thing is to get a court order that grants you legal possession of a property another is to get actual possession. This second possession requires the eviction of the mortgage holder, which can be very difficult in Bolivia.

#### Denomination, Interest Rate and Maturity of Mortgage Loans

As indicated earlier, mortgage credit in Bolivia is offered in three types of “currencies”: dollar denominated, peso denominated and in inflation adjusted instruments, Unidad de Fomento de Vivienda. Only a few institutions offer Unidad de Fomento de Vivienda adjusted loans. Most loans have been granted in dollars (both in terms of amounts lent and number of credits). Interest rates fluctuate depending on the type of financial institution. Banks offer the lowest rates but this reflects the fact that they

provide credit to the low risk segment of the market and offer larger credits. Rates also vary depending on the “currency” of the loan. By and large dollar loans have the lowest lending rate and peso loans the highest. In the last two years the dollarisation of credits has increased as a result of the revaluation of the peso. On the other hand, due to fluctuating and rising inflation, debtors have shied away from *Unidad de Fomento de Vivienda* denominated loans.

**Table 3.6: Average Interest Rates for Housing Credits** (as of December 31,2007, in percentages)

	USD Loans	Peso Loans	UFV Loans
Banks	7.75	10.70	9.38
Cooperatives	13.42	11.81	n.a.
Mutuals	6.38	8.73	9.38
Financial Funds	13.85	16.88	n.a.

Source: Central Bank of Bolivia

Interest rates differ widely between institutions, with Mutuals offering the lowest rates and Financial Funds the highest. The differences in pricing relate to the cost of funds, which is lower in Mutuals, Cooperatives and Banks than in FFPs and the other non-bank intermediaries because they have the possibility of offering low cost or interest free checking accounts.

Financial institutions offer only variable rate mortgages after the first year in which they have a fixed rate which is below the current market variable rate. For instance a client who obtains a mortgage today would get an interest rate of 6.5-7% on a dollar denominated loan, while a client who obtained a loan six months ago

could see his loan rate adjusted to around 8.5-9% for the following six months. The rates vary semi-annually based on market developments. All banks use a benchmark rate as anchor. This rate is the TRE which is calculated every week by the Central Bank on the basis of the average rate on 180 day deposits of the banking system and is published in a national newspaper every Thursday. Banks add a spread to such date (typically 5 to 6 percentage points). The TRE stands currently at 3.7%.

The typical loan is granted with a maturity of fifteen years, although most banks now offer twenty-year credits. One or two banks go to twenty-five years and some Mutuals are offering 30-year credits. Loan terms are pretty much standard in Bolivia. Monthly repayments of capital and interest are the norm and the repricing of variable rates is done every six months.

The mortgage business in Bolivia is highly competitive due to excess liquidity in the banking system and lack of alternative clients. Other lending, for productive purposes and services, is not growing as much as mortgage credit for housing. As a result banks have around 25% of their total portfolios on housing loans, very high by international standards. There does not appear to be much room for continuous expansion of mortgage credit unless banks start “securitising” their loan portfolios taking them off their balance sheets.

Financial institutions do not have long-term sources of funds to finance their mortgage portfolio. They basically fund these credits with their regular deposit-taking activities (mostly short-term) and using their own resources (capital and retained earnings). Thus, they have an important mismatch between the maturity of their assets and liabilities.

### Other Mortgage Costs

In addition to interest rates on loans, bank charge certain fees and other costs to their clients. Due to the competitive nature of the market, these costs are relatively low. The other



costs include: application form (USD10), legal/notary fees (about USD100), property appraisal (varies between USD50-150 depending on the price of the property), Registration fee (4 per thousand of property value), and mortgage insurance (around 0.40 to 0.60 per thousand of value of credit). Borrowers are also required to purchase property casualty insurance.

### Credit Information

Mortgage lenders all over the world rely on credit information compiled by national credit bureaus to ascertain a borrower's track record of handling credit. Credit bureaus assist lenders by providing information that allow them to assess an individual's credit performance. Bolivia lacks a comprehensive national credit bureau that contains information on borrowers' credit history. There is a credit bureau managed by the *Superintendencia de Bancos y Entidades Financieras* but it only has data on credits granted by the financial institutions it supervises. Neighbouring countries such as Peru and Chile have independent private sector credit bureaus that include a wide gamut of credit information on borrowers allowing a more complete credit profile of potential credit customers. The lack of complete credit information can be a significant barrier in the low-income housing market where borrowers often do not have a credit history with a financial institution or the ability to prove their income.

### The Appraisal Process

No formal structure exists in Bolivia for the appraisal of residential mortgage in Bolivia, other than the obligation of appraisers to register in the *Superintendencia de Bancos y Entidades Financieras* to be on a roster of eligible appraisers. Appraisers are individual engineers with no specific professional qualifications relevant to valuations of residential property, other than self-taught experience. The appraisal process for residential property in Bolivia is

very much in its infancy with little access to comparable information which would normally form a crucial part of any valuation. No system exists for the use of comparables in assessing the value of residential property. It is understood that residential property is advertised for sale and that appraisers will be familiar with the prices being advertised at any given time in relation to property within reasonable proximity to the subject property. These are, however, only asking prices and are subject to negotiation. There is, however, a reasonable amount of confidence in the system. Dependent upon the terms of contract between the appraiser and the instructing bank, recourse against the appraiser in the event of negligence will be dependent upon the financial position of each individual company, in the absence of any recourse to professional indemnity insurance. The obligation for regulated financial institutions to use an appraiser pre-approved by the *Superintendencia de Bancos y Entidades Financieras* somewhat minimises the risk of wrongdoing.

### The Realtor Industry

Real estate business is informal but relatively active in Bolivia, particularly in the three large cities. There are no real estate agency chains to provide a ready source of comparables based on actual prices. Agents work in groups seeking out buyers for particular properties, charging a commission of around 5%. There is no automated system with listings (properties available in the market) and agencies are not required to be associated with real estate agents. The lack of an organised professional group of the real estate business prevents access to unified and centralised information based on market transactions.

There is no public information on construction finance and finance for rental housing. Since the construction industry in Bolivia is relatively small and there are no major multi-family housing projects, banks are

not heavily involved in providing construction loans or finance for rental housing.

## B. THE ROLE OF STATE IN ESTABLISHING/PROMOTING HOUSING FINANCE AND FINANCIAL STABILITY IN BOLIVIA;

Government policies on promoting housing development or housing finance have been erratic and not very effective. Policies have lacked a long-term development perspective and have been affected by short-term political agendas. Canedo (2004) provides a very interesting summary of the evolution of the housing policy in Bolivia between 1924 and 2004. She concludes that despite cosmetic changes in policies throughout the years, the results have not been effective due to bad administration. Bad decisions, corruption, bureaucracy, misguided and unfocused subsidies, and political interference, were all cited as major reasons for the failure of different governments to put in place a coherent long-term housing policy that facilitated housing construction and finance.

As a result, most house construction has been financed with personal savings, i.e., without the intervention of the financial system or of government sponsored schemes. Since the 1950s different governments have implemented housing promoting policies through the establishment of mandatory savings and the creation of a number of entities in charge of administrating these resources and financing the construction of social housing. In the following paragraphs we summarise the major features of housing programmes promoted by Bolivian governments since the mid-80s.

### Fondo Nacional de Vivienda/Fondo Nacional de Vivienda Social

In 1987 the government created the *Fondo Nacional de Vivienda* funded by a compulsory contribution of 1% of all payrolls. In 1992 *Fondo Nacional de Vivienda* was converted into the *Fondo Nacional de Vivienda Social* [National Trust for Social Housing]. *Fondo Nacional de Vivienda Social* was established to administer compulsory employees' (1%) and employers' (2%) contributions and to spur the construction of low-cost housing. *Fondo Nacional de Vivienda Social's* main mission was to act as a source of wholesale funds which primary lenders could offer as long-term housing loans. In 1994, *Fondo Nacional de Vivienda Social* adopted two strategies for channeling funds for housing construction:

- (i) granting loans to financially healthy mutuals under the Habitat programme; and
- (ii) earmarking the bulk of its resources for a trust programme, which consisted of contracting banks as agents to administer large-scale housing construction projects and to originate and service the associated mortgage loans.

This last operation became an excellent business for the financial intermediaries, since the fees they charged more than covered their administrative costs and *Fondo Nacional de Vivienda Social* assumed the risk.

*Fondo Nacional de Vivienda Social* represents the typical government intervention intended to promote an activity that fails because of a bias toward public sector financing or construction. The results have been unsatisfactory both with respect to meeting the demand for low-cost housing and also with respect to efficient use of the considerable funds at its disposal and the number of houses actually built.<sup>19</sup> The banks, many in weak financial positions, that participated in *Fondo Nacional de Vivienda*

<sup>19</sup>For a more detailed description of *Fondo Nacional de Vivienda Social* problems refer to Inter-American Development Bank (1998).

*Social* operations, did not assume any credit risk and received between 2.5% and 3% of the loan to administer the construction process plus a further 2.5% to 3% as a service fee on scheduled loan repayments. Credits granted with a significant subsidy benefited less than 20 percent of contributing workers. The allocation of credit was subject to political influence and used as a tool to promote party group loyalty. Also, properties were overvalued and constructions were of poor quality. Because of these failings, *Fondo Nacional de Vivienda Social* was closed and liquidated, as part of the new housing policy of 1998. *Fondo Nacional de Vivienda Social* was finally dismantled in 2002. Canedo mentions that in the whole *Fondo Nacional de Vivienda-Fondo Nacional de Vivienda Social* period these institutions only contributed to the construction of around 25,000 housing solutions and 32,000 loans were granted (including not only complete houses but also house improvements and expansions).

#### 1998 Housing Policy: National Housing Subsidy Program (Programa Nacional de Subsidio de Vivienda)

The 1998 housing policy (Supreme Decree No 24935 of December 31, 1997) included a reorganisation of the housing finance system that included a set of measures that were intended to have a major impact on the sector:

- a) The closure and liquidation of *Fondo Nacional de Vivienda Social*, since it has not fulfilled its mandate. The employee and employer contributions of 1% and 2% on wages, respectively, continued to be collected but used for different purposes. The employee contribution will be placed in individual savings accounts in the financial system and will be paid interest based on the returns from investments in tradable mortgage-backed securities. Savings may be withdrawn by the account holder to finance housing solutions. The employer contribution will help to fund the national housing subsidy programme.
- b) The creation of a secondary mortgage market to channel long-term resources from pension fund management companies, insurance companies, and other investors into housing financing, through the securitisation of mortgages and the necessary guarantee mechanisms. *Nacional Financiera Boliviana*, as the second-floor bank, will be the initial conduit for the system of mortgage securitisation, but purely private entities that organise for that purpose and comply with the regulations will also be allowed to act as channels.
- c) The creation of instruments, incentives, and mechanisms to facilitate housing finance in the interior of the country and access to credit by low-income groups.
- d) The creation of rules for the optional conversion of savings and loan Mutuals into corporations in order to strengthen them. Mutuals with negative net worth would be liquidated unless they are able to obtain additional capital.
- e) The creation of the National Housing Subsidy Programme to channel subsidies to improve the housing situation of low-income groups. The National Housing Subsidy Programme was created in January 1998. Its sources of funding were the 2% employer contribution on total payroll, external loans and grants, voluntary municipal contributions, and any proceeds from the liquidation of *Fondo Nacional de Vivienda Social*. The National Housing Subsidy Programme was supposed to be an umbrella programme that would include a variety of subprogrammes provided they complied with the criteria to be established.
- f) Creation within the National Housing Subsidy Programme of a barrio improvement subprogramme that will finance comprehensive projects with community and municipal participation, involving

investments in physical and social infrastructure in unregulated barrios in different cities. During the programme, at least 50% of the 2% employers' contribution available to the National Housing Subsidy Programme (and never less than US\$10 million) will be used for barrio improvement. The remainder will go to other programmes that comply with National Housing Subsidy Programme's operating regulations.

The 1998 housing programme was designed with the support of Inter-American Development Bank staff and consultants and was supported by an Inter-American Development Bank loan approved the same year. As with other housing programmes in Bolivia, it failed to reduce the housing deficit or to make a significant difference in the way the housing market functioned.

#### Programa de Financiamiento de Vivienda

In January 2004, once again there was a major change in housing programmes in Bolivia. A new *Programa de Financiamiento de Vivienda* was put in place aimed at consolidating the mechanisms that facilitate housing access to Bolivian families, with priority given to low-income families, and promoting private participation in the construction and financing of these housing solutions (Supreme Decree No. 27333 of January 31, 2004). This programme only lasted two years.

#### Programa de Vivienda Social y Solidaria

In July 2006, the current government decided to restructure the housing policy and programmes one more time, arguing that the *Programa de Financiamiento de Vivienda* had not succeeded in meeting its objectives and has not directed its resources to the low-income population. Thus it created the *Programa de Vivienda Social y Solidaria* through Supreme Decree 28794. This programme is funded by

a 2% contribution of employers on all payrolls (both public and private employers). *Programa de Vivienda Social y Solidaria* consists of two major subprogrammes: one aimed at reducing the quantitative housing deficit and the other to attack the qualitative deficit.

The qualitative deficit is to be reduced through three subprogrammes:

- (i) Vivienda saludable (healthy housing),
- (ii) Vivienda social productiva (social productive house), and
- (iii) house improvement and expansion.

These programmes consider a non-reimbursable subsidy to help beneficiaries put the down payment necessary to build the housing solution.

The solutions to the quantitative deficits consist of four subprogrammes:

- (i) Subprogramme 1 to attend the needs of rural households below the poverty line;
- (ii) Subprogramme 2 to attend housing needs of families with moderate poverty in urban areas in the periphery of cities and in intermediate areas;
- (iii) Subprogramme 3 to attend the needs of population close to the poverty line in these same areas, and
- (iv) Subprogramme 4 to attend the needs of the population in other urban areas.

The various subprogrammes have specific characteristics and requirements. *Programa de Vivienda Social y Solidaria* establishes a differentiated system of financing plans to families with monthly income ranging from BOB300 to BOB1,500.<sup>20</sup> Families can opt for an interest-free loan of up to USD6000, with 20 year maturity. Loans of larger amounts carry an annual interest rate of 3%. Under Subprogramme 1, rural families can receive a loan (or subsidy, this is not clear) to buy a house of up to USD3500 as long as they have monthly incomes below BOB300 (USD40).

Subprogramme 2 provides loans for

<sup>20</sup> The exchange rate as of March 3, 2008 was Bs. 7.58 per dollar.

purchasing houses ranging from USD2500 to USD5000 for families with monthly income below BOB1000. Under Subprogramme 3 beneficiaries can opt for a credit to purchase a house under a price range between 5000 and 8000 dollars as long as the family income is below BOB1,300. Finally beneficiaries in urban areas that want to acquire a house can access credit to purchase a house of up to USD15,000. Monthly income has to be around BOB1500. Credits granted through Subprogrammes 2, 3 and 4 are provided by private financial institutions acting as first-tier institutions. The government funds the loans after a very complicated approval process described in the *Reglamento Operativo*.

This new housing programme suffers from the typical problems of the subsidised credit programmes that have failed during decades in several developing countries:

- (i) while the loans are granted through a private financial intermediary, the credit allocation process is very cumbersome and involves a government agency,
- (ii) the risk of default is assumed by the government and not by the private sector intermediary that just acts as an administrator of the loan,
- (iii) the interest rate is subsidised, and
- (iv) the subsidy is related to the size of the loan and therefore the beneficiaries which have the financial means of access to a higher loan obtain a larger subsidy.

The programme has a very complicated system of credit allocation judging from the *Reglamentos Operativos* that have been issued. The programme is administered by the Viceministry of Housing and Urbanism which belongs to the Ministry of Public-Works, Services and Housing.

There is no official public information on the number of families who have received these loans or about the number and types of houses built since the Housing Programme started. Estimates of the number of houses built with

assistance from the programme vary between 3,000 and 9,000 through the end of 2007.

On April 14, 2007 President Morales re-launched the *Programa de Vivienda Social y Solidaria* recognising that the programme, designed a year earlier, had not worked as expected. In an interview with the *Agencia Boliviana de Información* on January 3, 2008 the Housing Vice-Minister indicated that he expects after recent changes reducing the requirements of access to *Programa de Vivienda Social y Solidaria* funds, the government will deliver 20,000 housing solutions in 2008 (the same number that was offered in 2007). Reportedly the programme failed to meet its goals because of bureaucratic red tape and reduced intervention of the Vice-Ministry of Housing in the conduction of the programme. The requirements of access to financing to the programme have now been “reduced to only 18 steps”.

Judging by similar experiences elsewhere and in Bolivia, it is likely that this programme will fail to meet the housing demands of the low-income population in Bolivia, or reduce the housing deficit in the country. Several bankers that were interviewed indicated that they are not intermediating funds from the *Programa de Vivienda Social y Solidaria* programme. *Banco Unión*, a commercial bank that had government intervention, is the only bank involved in the *Programa de Vivienda Social y Solidaria*. The government is using Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo, the second-tier finance institution for regulated non-bank financial institutions, as the institution to select the financial institutions that would intermediate *Programa de Vivienda Social y Solidaria* funds. To date 28 institutions have joined the programme, including *Banco Unión*, two Mutuals, three *Fondos Financieros*, 15 cooperatives, and the rest are unregulated institutions (such as non-governmental organisations), many of which belong to *Red Nacional de Asentamientos Humanos*.

## Chapter 4 - Major Housing Finance Products/ Mechanisms in Bolivia

As indicated previously, different institutions are involved in financing housing in Bolivia, including intermediary credit institutions composed of commercial banks, savings and loan mutuals, cooperatives and, to a lesser extent, private “Financial Funds” and unregulated Non-governmental organisations. All of these are private institutions. Public involvement in direct lending for housing, when attempted in the past, has always failed. Currently there is no government-owned institution providing direct housing credit. Nonetheless, there are certain mortgage products with government funding through the *Programa de Vivienda Social y Solidaria* which constitute a differentiated, and subsidised, group of mortgage products.

All mortgage credit provided in Bolivia occurs in the primary mortgage market since there is no secondary mortgage finance market. The main players in the housing finance market of Bolivia are the commercial banks which account for 71% of the stock of mortgage credits in the country. There is no information either about the structure of mortgage credit by loan size or by income level of borrowers.

The major housing finance product in Bolivia is mortgage financing through formal financial institutions. Reportedly there is self-construction of housing financed with short term loans from relatives and informal lenders, but there is no official information on the size of this market or on the characteristics of these other forms of finance.

As indicated in the previous chapter the lack of information does not permit an in-depth assessment of housing finance in the country. There is no information on the loan portfolio segmented by loan maturities and interest rates. Furthermore, there is no publicly available information on the different loan

underwriting criteria of the various types of financial intermediaries. Thus, if there are different housing finance products offered by banks it is not possible to analyse them due to lack of official information on the differences between mortgage products offered by financial institutions. Our discussions with officials from financial institutions lead to the conclusion that they offer a typical mortgage loan with the following characteristics.

### Regular Mortgage Products of Financial Institutions

*Superintendencia de Bancos y Entidades Financieras* establishes basic parameters for the issuing of mortgage credits by financial institutions. These parameters intend to safeguard the solvency of financial institutions. Nonetheless, each financial institution adds some supplementary conditions or requirements to its mortgage origination criteria. In general, the following requirements are typical of the mortgage industry:

- (i) clients are required to have a savings or current account for at least three months prior to applying for a loan with a minimum balance which varies in each institution, and
- (ii) they have to provide some certification of minimum income and proof of repayment capacity.

The large banks have been operating generally with borrowers with family incomes above USD1,000, although some banks had lower minimum income requirements. Due to increased competition in the industry and a perceived saturation of mortgage clients in the high end of the market, banks are starting to look at lower income clients (USD400 per month and up).

Financial institutions have the following underwriting criteria for mortgage loans:

- (i) loan to value ratio of no more than 80% (although due to competitive pressure some banks have dropped to 15% down payments),
- (ii) monthly payment to income ratio of no more than 25% and no more than 40% of income for payments of all types of debt,
- (iii) loan maturity typically varies between one and twenty years although some banks offer up to twenty five years to some borrowers,
- (iv) most credits are granted in dollars;
- (v) interest rates are variable (each six months the bank establishes unilaterally new values for the nominal and effective rate, based on market indicators);<sup>21</sup>
- (vi) loans are provided against a guarantee of the property duly registered in the Registro de Bienes Inmuebles (Property Registry);
- (vii) banks are required to have the property appraised by an appraiser duly registered in Superintendencia de Bancos y Entidades Financieras; and
- (viii) all borrowers have to accept a speedy judicial execution (juicio coactivo) in case of default.

There are no major differences in Bolivia between mortgage products offered by different financial institutions with the exception of the level of interest rates: banks offer lower rates because they attend the higher income segment of the market and offer larger credits. As already mentioned, there is also some product differentiation according to the denomination of the loans. Mortgage credit in Bolivia is offered in three types of “currencies”: dollar denominated, peso denominated and in inflation adjusted instruments (*Unidad de Fomento de Vivienda*). Only a few institutions offer *Unidad de Fomento de Vivienda* adjusted loans.

<sup>21</sup> If the borrower is in disagreement with the new rate established by the financial institution, it can prepay the loan with no penalty.

Furthermore, as mentioned in a previous chapter, financial institutions offer only variable rate mortgages after the first year in which they have a fixed rate which is below the current market variable rate. All institutions have the same product.

The typical loan is granted with a maturity of fifteen years, although most banks now offer twenty-year credits. One or two banks offer twenty-five years in some cases and some Mutuables are offering 30-year credits. Loan terms are pretty much standard in Bolivia. Monthly repayments of capital and interest are the norm and the repricing of variable rates is done every six months.

### Microfinance for Housing

There are several regulated microfinance institutions and some unregulated institutions, such as non-governmental organisations, that provide microfinance for housing in Bolivia at a very limited scale. It is difficult to analyse the extent of these activities since there is no public information on the number of credits and amount of loans that they provide or the number of housing solutions that they have facilitated. The regulated microfinance institutions belong to *Asociación de Entidades Especializadas en Microfinanzas*, that compiles and publishes data on their activities but does not provide information on the loan portfolio by types of credit. Thus, the information on microcredits for housing is not readily available. In the case of unregulated institutions, many of these non-governmental organisations are associated to *Red Nacional de Asentamientos Humanos* which is an organisation that tries to promote low income housing policies and programmes in Bolivia. Unfortunately *Red Nacional de Asentamientos Humanos* does not provide consolidated financial statistics on the housing finance activities of its members. Other unregulated financial institutions are associated to *Asociación de Instituciones Financieras para el Desarrollo Rural* that does not publish data on the microcredit activities for housing of its associated members.

Some institutions, including the *Mutuales* have developed microfinance credit solutions for its low income clients. These products involve credits ranging between USD500 and USD3000 to improve the conditions of houses, financing house upgrading, the provision of sanitary services or expansions. Since these loans are typically for self-construction, their supervision is crucial. The funds are disbursed in tranches (usually three) and are provided only to clients that legally own the property they are building. Mutual La Primera has long experience in this type of loan. There is no up to date information on credit conditions, number of clients and amounts lent for this purpose.

BancoSol is developing a microcredit for housing intended to serve the needs of the urban dwellers in Bolivia that earn less than USD200 per month.<sup>22</sup> The bank plans to cover a wide range of financing needs: purchase of a house, purchase of land and construction of house, expansion, home upgrading, and title legalisation. Bancosol is planning to develop products under these parameters:

- (i) loan amount starting at USD500,
- (ii) 80% financing for purchase or construction of house,
- (iii) 100% financing for expansion, upgrading, or titling expenses;
- (iv) term of loans: 6 to 180 months,
- (v) fixed rates for loans with maturities up to two years, variable rates for longer maturities,
- (vi) mortgage guarantee for loans over USD6,000.

Credit requirements:

- (i) Owner of small or micro business,
- (ii) adequate cash flow and other means of repayment,
- (iii) business in activity for at least one year,
- (iv) age: between 21 and 65 years old, and
- (v) adequate credit rating at the Credit Bureau.

### Mortgage Products with Government Subsidies

Through the *Programa de Vivienda Social y Solidaria* certain financial institutions offer government subsidised mortgage products. *Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo*, the second-tier finance institution for regulated non-bank financial institutions, is the institution that selects the financial institutions eligible to intermediate *Programa de Vivienda Social y Solidaria* funds. To date 28 institutions have joined the program, including *Banco Unión* (a government-managed commercial bank), two *Mutuals*, three *Fondos Financieros*, 15 cooperatives, and the rest are unregulated institutions (such as non-governmental organisations), many of which belong to *Red Nacional de Asentamientos Humanos*.

As indicated in Chapter III, the *Programa de Vivienda Social y Solidaria* consists of two major subprogrammes: one aimed at reducing the quantitative housing deficit and the other to attack the qualitative deficit. The qualitative deficit is to be reduced through three subprogrammes:

- (i) *Vivienda saludable* (healthy housing),
- (ii) *Vivienda social productiva* (social productive house), and
- (iii) house improvement and expansion.

These programs consider a non-reimbursable subsidy to help beneficiaries put the down payment necessary to build the housing solution. The solutions to the quantitative deficits consist of four subprograms:

- (i) Subprogramme 1 to attend the needs of rural households below the poverty line;
- (ii) Subprogramme 2 to attend housing needs of families with moderate poverty in urban areas in the periphery of cities and in intermediate areas;
- (iii) Subprogramme 3 to attend the needs of population close to the poverty line in these same areas, and

<sup>22</sup> Alaiza (2007)



Table 4.1: Financing Conditions under Current Government Subsidy Program

	Subprogram 2	Subprogram 3	Subprogram 4
House Cost	USD 2,500 to USD 5,000 equivalent to UFVs 1/	USD 5,001 to USD 8,000 equivalent to UFVs 1/	USD 8,001 to USD15,000 Equivalent to UFVs 1/
Family Income	Below BOB 1000	Below BOB 1300	Around BOB 1500
% Financing	Up to 80% of construction cost	Up to 30% construction	Up to 85% construction cost
% Land financing	20% of cost	20% of cost	15% of cost
Interest rate	0%	0%	3%
Maturity	Up to 20 yrs	Up to 20 yrs	Up to 20 yrs
Collateral	Mortgage	Mortgage	Mortgage

*1 Subprogramme 2 is from 16,600 to 33250 UFV, Subprogramme 3 is from 33251 to 53190 Unidad de Fomento de Vivienda and Subprogramme 3 is from 53191 Unidad de Fomento de Vivienda to 99,730 Unidad de Fomento de Vivienda.*

*Source: Reglamento Operativo del Programa de Vivienda Social y Solidaria*

(iv) Subprogramme 4 to attend the needs of the population in other urban areas.

The various subprogrammes have specific characteristics and requirements. *Programa de Vivienda Social y Solidaria* establishes a differentiated system of financing plans to families with monthly income ranging from BOB300 to BOB1,500.<sup>23</sup> Families can opt for an interest-free loan of up to USD6000, with 20-year maturity. Loans of larger amounts carry an annual interest rate of 3%. Under Subprogramme 1, rural families can receive a loan (or subsidy, this is not clear) to buy a house of up to USD3500 as long as they have monthly incomes below BOB300 (USD40).

Subprogram 2 provides loans for purchasing houses ranging from USD2500 to USD5000 for families with monthly income below BOB1000. Under Subprogramme 3 beneficiaries can opt for a credit to purchase a house under a price range between USD5000 and USD8000 as long as

<sup>23</sup> The exchange rate as of March 3, 2008 was BOB. 7.58 per USD.

the family income is below BOB1,300. Finally beneficiaries in urban areas that want to acquire a house can access to a credit to purchase a house of up to USD15,000. Monthly income has to be around BOB1500. Credits granted through Subprogrammes 2, 3 and 4 are provided by private financial institutions that act as first-tier institutions. The government funds the loans after a very complicated approval process described in the *Reglamento Operativo*.

There is no official public information on the number of families that have received these loans or about the number and types of houses built since the Housing Programme started. Estimates of the number of houses built with assistance from the programme vary between 3,000 and 9,000 through to the end of 2007.

## Chapter 5 - Bottlenecks and Factors Constraining the Development of Housing Finance Mechanisms in Bolivia

The bottlenecks and constraints in the development of housing finance mechanisms in Bolivia are similar to those affecting other countries in the region and include:

- (i) titling problems,
- (ii) affordability issues for a large percentage of potential clients which reduce their access to credit,
- (iii) inadequate credit information,
- (iv) lack of long-term sources of finance available to financial institutions,
- (v) inadequate government sponsored housing subsidy programmes, and
- (vi) lack of an expedient mechanism to repossess property in the case of a default on a mortgage.

The impact of these bottlenecks is developed in the following paragraphs.

### Limited Housing Solutions and Finance for Low Income Population

Housing finance in Bolivia is limited to a small number of families. In terms of dollar values and the number of credits, the bulk of financing is provided by banks to upper and high-middle income families. Funding for lower income families is provided by Mutu- als, Cooperatives and by a small number of non-governmental organisations. Most of these loans are given for the self-construction of houses, which includes expansion and addition of new rooms or areas. In some cases, housing loans get mixed with micro credits for productive purposes since many micro businesses operate from home premises. The total number of

outstanding credits in Bolivia as of November 2007 was 44,000, which represents a very small number in a population of almost 10 million. Furthermore, about 60% of these loans were granted by banks to upper and upper-middle income families. There is a need to extend housing finance to lower income segments of society. This can be done through well designed and targeted subsidy programmes that improve affordability.

The provision of funds to lower income households in Bolivia is very limited. As stated by Lea (2005) when referring to housing credit in developing countries, “the reasons are many – lower-income households may not be able to afford housing at market rates of interest and house prices, their incomes may not be stable or documented, or their credit history may be poor. The risks of providing finance to these households often are seen as too high for private sector lenders. Despite these obstacles, there is increased interest in and funding for lower-income housing markets in many countries”. Public and private sector efforts have to be coordinated in order to increase the availability of housing finance for lower income households. This is not happening in Bolivia.

### Lack of a Long-term and Effective Housing Subsidy Programme

A well-functioning housing finance scheme includes products that reach the majority of the population. This is also missing in Bolivia, where there is a lack of an adequate interaction between government subsidy programmes

and private products to ensure that they are complementary and help increase the affordability of households to access housing finance products offered by the financial sector. Bolivia's housing industry and financial system, with a few exceptions, provide housing solutions and housing finance to the middle and upper income population groups.

### Poor Availability of Housing Sector Information

Due to a lack of adequate information it is difficult to analyse the performance of housing finance in Bolivia. For instance, information on mortgage credit collected by *Superintendencia de Bancos y Entidades Financieras* does not include all the details needed to determine the effectiveness of housing credit, or how well it serves the needs of the housing sector, affordability issues, defaults, which segments of society benefit most, etc. It is critical that information on housing demand and supply is improved as well as on the types of credits available in the market to the various socioeconomic segments. It is also important to have updated information on the functioning of the housing subsidy programme, including the number of beneficiaries and profiles of those beneficiaries to see if the subsidies are going to the right people. Similarly, there is little information on microfinance for housing.

Furthermore, as stated by Angel (2000), "the most basic policy instrument for the development of a vibrant housing finance regime is the creation of a property rights regime that makes it possible to own, buy, sell and mortgage houses and apartments...". Lea (2005) also stresses this point: "It is no accident that those countries enjoying the highest level of development of their housing finance systems, as defined in terms of the relative availability of mortgage credit and its relative cost are those countries with the legal systems in which property rights are strongly enforced". Secured property rights are still missing in Bolivia.

### Titling and Registry Problems

While there are long-term problems in the functioning of the property registry in Bolivia, there is a lack of political will to carry out significant reform. In 2004 a "*Reglamento del Registro de Derechos Reales*" was issued (Decreto Supremo 27957), but it proved insufficient to resolve the problems that exist, which include the overlapping of registries that result in double registration of properties. There is a need for a new "*Ley de Registro de Derechos Reales*" since the current one was issued in 1887. A formalisation programme for rural properties was carried out a few years ago but it was not possible to do something similar for urban property, as was successfully done in Peru with the assistance of the World Bank. One major problem is that the Registry is part of the judicial system while the Cadastre System belongs to the municipalities, with little interaction between the two systems. As a result in order to get assurance that you have a "clear title" the financial institutions and the purchasers have to obtain the certification of *Derechos Reales* and of the respective municipality, this latter certification taking between 20 and 30 days to obtain.

### Difficult Recovery of Overdue Loans

Other basic characteristic of a well-functioning housing finance system, also lacking in Bolivia, is an adequate and expedient mechanism to repossess property in the event of a mortgage default. The use of the figure of *Juicio Coactivo* has been one means to try to circumvent this problem, but it is increasingly being challenged in the Courts. Furthermore, as mentioned in a previous chapter, evictions are difficult.

### Lack of Supply of Developed Land in Major Cities

Another major problem in Bolivia is the inability of the government, either central or municipal, to supply developed land in major cities. This is a particular problem in La Paz. As a result it has become increasingly costly to obtain land for developing housing projects. This has resulted from a combination of factors:

- (i) lack of long-term planning,
- (ii) corruption that leads to selling large portions of land to speculators, and
- (iii) overall titling and cadastre problems.

Finally, availability of land in the periphery of cities becomes very costly as a result of the lack of infrastructure (roads, electricity and water supply and sewerage).

### Lack of Long-Term Funding for Financial Intermediaries

Another important bottleneck in Bolivia that is likely to constrain housing finance in the near future is the fact that the primary vehicle to raise funds for these credits is the deposits of individuals. These funds are short term, mostly with terms of one year or less. As stated by Lea (2005) “funding housing in such a manner potentially increases the liquidity risk and the cash flow risk and.... it is relatively expensive”.

Furthermore, due to the short-term nature of its funding, lenders are forced to provide credit only at variable rates, shifting the risk to the borrower, who faces uncertainty about the level of payments. Changing this situation involves developing the capital markets, a task beyond the development of housing finance mechanisms.

Finally, as mentioned earlier, Bolivia lacks a comprehensive national credit bureau that contains information on borrowers' credit history. There is a credit bureau managed by the *Superintendencia de Bancos y Entidades Financieras* but it only has data of credits granted by the financial institutions it supervises. Neighbouring countries such as Peru and Chile have independent private sector credit bureaus that include a wide gamut of credit information on borrowers allowing a more complete credit profile of potential customers.

## Chapter 6 - Lessons and Recommendations for Developing Housing Finance in Bolivia

The various Bolivian governments over the past thirty years have failed to put in place an effective and coherent strategy to improve overall housing conditions in the country. They have also been ineffective in promoting the development of housing finance.

As stated in several World Bank, Inter-American Development Bank and United Nations/Habitat sponsored reports in recent years, in many developing countries, the creation of an adequate regulatory and legal framework to deal with all aspects of mortgage finance which safeguards the interests of lenders without disregarding the rights of borrowers, is a necessary first step. In addition, there is a need for special programmes to make mortgage finance affordable to low-income households without introducing distortions in the market. Furthermore, municipalities can help overcome some of the barriers to financing shelter for the poor. One of the main roles municipalities can play is to provide access to land through subsidies at low cost and clear title – one of the most important bases for housing loans.

Furthermore, a well-designed land management and registration system can considerably increase people's access to housing and credit. Governments can also stabilise long-term property values through extensions of main lines for water, sewers, roads, electricity and other essential public services in the vicinity of poor communities. Local authorities need to open up the channels for dialogue with community organisations on land and tenure issues to expand the range of alternative finance mechanisms. All these recommendations are valid in Bolivia.

There is a need to formulate and implement a new housing policy aimed at strengthening

both low-income and social interest housing by:

- i. increasing the resources channeled to the sector, with a market focus oriented towards promoting greater competitiveness and efficiency;
- ii. increasing the distribution channels for housing finance in order to expand private sources of supply;
- iii. supporting the lower-income segments of the population, under a scheme of direct, targeted subsidies, with a transparent assignation;
- iv. coordinating the housing subsidy programme with housing solutions designed with the cooperation of private constructors to ensure the availability of low-cost products.
- v. supporting the development of a secondary mortgage market, to provide more resources to the sector.

A housing policy with these objectives would give government a different role in the sector. It would increase its role as policy maker, regulator of markets, and supporter of competitive sectors and industries. Though the nature of government's role would change significantly, the government would continue to have a strong presence. Central to growth and change is a financial system that is more than a mere conduit for funds but one that mobilises and allocates resources. Unfortunately, the current government has already issued its new housing policy and programme therefore it is unlikely to modify it in the near future.

There is potential for expanding housing finance to the poor in Bolivia, but this will require a more comprehensive programme that included an improved housing policy

framework, transparent demand-driven subsidies to households, and a reduction of regulatory supply barriers in the provision of housing. The Bolivian housing credit market remains relatively small and fragmented, but the overall trend looks good.

Expansion of conventional mortgage credits by commercial banks will depend on the banks' capacity

- (i) to assess lower informal incomes, credit-worthiness and payment capacity, and
- (ii) to make corresponding affordable and profitable credits to lower-income groups.

Provision of larger housing credits by non-bank lenders beyond their current micro-finance activities, would depend on them modifying their lending policies and attaining better financial conditions, specifically better terms and interest rates, more sustainable access to funding, and considerably reduced operating costs.

Even with greater amounts of subsidies, low-income segments of the population may not become credit-worthy due to their chronically unstable and low incomes. To increase the impact on the poor, the government would have to put in place a more comprehensive programme of targeted demand-driven subsidies and regulatory reform to reduce supply barriers that limit the range and increase cost of formal housing (overly dimensioned land and building regulations, and bureaucratic property right registration and construction licensing procedures).

The government should also promote affordable alternatives to finished single family housing - progressive and low cost multi-family housing - through:

- (i) neighbourhood planning for progressive investment in local infrastructure;
- (ii) construction technical assistance to households; and
- (iii) densification of current urban areas.

An integral housing financing policy strategy should include:

- a) reforming the legal mechanisms for the incorporation, registry and execution of mortgage deeds and other guarantees, in order to simplify and reduce costs originated by such incorporation and registry procedures, as well as by judicial and other legal enforcement and litigation mechanisms. Other extra-judicial methods for the execution of guarantees should be considered.
- b) reforming the legal systems that regulates the execution and observance of contracts involving the transfer of the use of real estate - such as lease contracts and others. This should include the simplification of procedures for lease collection and procedures for repossession of property when contracts are not observed;
- c) measures that promote the development of a secondary market for mortgages and long-term institutional investors to provide funds to financial institutions for long-term lending;
- d) consolidating the current securitisation regulations to strengthen secondary markets on the basis of placement of housing (once the liquidity of banks dries up and they decide to look for alternative funding sources).

Specific actions in the area of housing finance that could be implemented in Bolivia include the following:

- a) Reform of the Programa de Vivienda Social to improve its effectiveness in stimulating the provision of private housing finance and the progressivity of subsidies in a nondisruptive manner for the numerous primary lenders participating in the program. Provide targeted up-front subsidies and/or improved default guarantees to replace the current regressive subsidy on interest rates. This implies a simple, portable, and non-distorting

- subsidy system such as that in existence in neighboring countries (Peru and Chile)
- b) Improve the Public Registry System and the property titling programme
  - c) Promote the development of a comprehensive national credit bureau system to improve the quality of credit histories of potential borrowers
  - d) Evaluate the possibility of developing a new “positive information database” on informal-income clients and make the database accessible to all lenders. This type of database provides positive information on potential borrowers (availability of titled properties, adequate payment record of public utility bills, tax registration, among others)
  - e) Support a programme of housing savings passbooks in regulated private financial institutions, possibly linked to matching subsidies
  - f) Study the advantages and disadvantages of developing a system of partial default credit insurance through: (i) better data collection, servicing requirements and actuarial pricing; (ii) explicit subsidies for low income groups; (iii) temporary cash flow advances covering late payments, and (iv) the development of mortgage pool insurance products for further securitisation purposes
  - g) Improve the availability of information on the mortgage finance industry: Superintendencia de Bancos y Entidades Financieras should require financial institutions to provide more details on their mortgage loan portfolio including: information on the number of new loans and the amount, the number of loans and the amount by range of loan size, information on the vintage of the overdue loans, data on overdue loans as a function of loan size, etc
  - h) The government should also develop a database with information on the number of houses built (disaggregated by areas or regions, range of prices, type of construction); their cost; and transactions in the secondary market (number of transactions, prices, etc).
  - i) Help develop the realtor industry to allow for more efficiency in the pricing of property through a more competitive market. This includes the establishment of minimum licensing criteria for brokers and the implementation of a Multiple Listing Service of properties available in the market, as in the United States, to facilitate the development of the secondary market for houses.

## References

- Alaiza, Gonzalo (2007) “Microcrédito de Vivienda”, Taller del Clúster FOMIN de Proyectos e Vivienda, Presentación de BancoSol, Noviembre, Cartagena, Colombia..
- Angel, Shlomo (2000) “Housing Policy Matters: A Global Analysis”, Oxford University Press, New York.
- Canedo, Paola (2004) “Políticas de Vivienda Social en Bolivia”, Resumen de Tesis de Grado, Universidad Mayor de San Andrés, Carrera de Economía, Mimeo Draft, La Paz, Bolivia.
- CEPAL (2007) “Balance Preliminar de las Economías de América Latina y el Caribe”, Santiago, Chile.
- Ferguson, Bruce (1999) “Micro-finance of housing: a key to housing the low or moderate-income majority?” *Environment and Urbanization*, Vol. 11, No. 1, April
- Ferguson, B., 2004. Housing Finance Options for Low and Medium Income Families: Analysis of the Latin American Experience. *Housing Finance International* 18(3).
- Gobierno de Bolivia (1997) “Creación del Programa Nacional de Subsidio de Vivienda” (PNSV), La Paz, Bolivia.
- Gobierno de Bolivia (2004) “Decreto Supremo No. 27333 Creación del Programa de Financiamiento de Vivienda”, La Paz, Bolivia.
- Gobierno de Bolivia (2006) “Cuarto Informe Progreso de los Objetivos de Desarrollo del Milenio Asociados al Desarrollo Humano”, La Paz, Bolivia.
- Gobierno de Bolivia (2006) “Decreto Supremo No 28794 Creación del Programa de Vivienda Social y Solidaria”, La Paz, Bolivia
- Gobierno de Bolivia (2006) “Reglamentos Operativos de Programa de Vivienda Social y Solidaria” (varios), Ministerio de Obras Públicas, Servicios y Vivienda y Urbanismo, La Paz, Bolivia.
- Gobierno de Bolivia (1976) Información Censo de 1976, La Paz, Bolivia
- Gobierno de Bolivia (1992 Información Censo de 1992, La Paz, Bolivia
- Gobierno de Bolivia (2001) Información Censo de 2001, La Paz, Bolivia
- Instituto Nacional de Estadística (2002) “Bolivia: Carencias, Déficit Habitacional y Acceso a Servicios Básicos”, La Paz, Bolivia.
- Instituto Nacional de Estadística (2005) “Encuesta Continua de Hogares”, La Paz, Bolivia.
- Inter-American Development Bank (2006) “Programmatic Framework to Support the National Development Finance System and the First Program”, Washington, D.C.
- Inter-American Development Bank (1998) “Housing Policy Support Program (Provivienda) BO-0008”, Washington, D.C.
- Lea, Michael (2005) “Attracting Private Capital into Low-Income Markets”, *Housing Finance International*, September 1, 2005.
- Montero, Marcelo (2007) “Desenvolvimiento y Perspectivas de la Banca en el Actual Contexto”, Web Page ASOBAN.



- Morales, R. 2002. "Las condiciones de las viviendas en Bolivia, insumos para la elaboración de políticas". La Paz, Bolivia: Ministerio de Vivienda y Servicios Básicos/ CIESS-Econométrica.
- Morales, Rolando (2003) "Situación Actual del Financiamiento a la Vivienda en Bolivia", IADB, Documento de Trabajo No. 501.
- Renaud, B. (2005) "Mortgage Finance in Emerging Markets: Constraints and Feasible Development Paths". Mimeo.
- Rojas, Rafael (2000) "Bridging the Finance Gap in Housing and Infrastructure, Mimeo, Homeless International.
- UDAPE (2006) "Economía y Política Económica 2006", Mimeo. La Paz, Bolivia.
- UDAPE (2006b) "Pobreza y Desigualdad en Municipios en Bolivia", La Paz, Bolivia.
- UDAPE (2006c) "Desempleo, Subempleo e Informalidad en Bolivia 1996-2005". La Paz, Bolivia.
- Warnock, Veronica Cacdac and Francis E. (2007) "Markets and Housing Finance", Working Paper 13081, National Bureau of Economic Research, Washington, D.C.
- World Bank (2002) "Bolivia Policy Notes". Mimeo Document.
- World Bank (2005) World Development Indicators.
- World Bank (2006) "Project Appraisal Document on a Proposed Credit to Bolivia for the Urban Infrastructure Project", Washington, D.C.
- World Bank (2006) "Interim Strategy Note for the Republic of Bolivia", Washington, D.C.
- World Bank. (1993) "Housing: Enabling Markets to Work", Washington D.C.