

HOUSING POLICY SUPPORT PROGRAM (PROVIVIENDA)

(BO-0008)

EXECUTIVE SUMMARY

BORROWER AND

GUARANTOR: Republic of Bolivia

EXECUTING AGENCY: Ministry of Housing and Basic Services

AMOUNT AND SOURCE: IDB (FSO): US\$60 million
Local contribution: US\$11 million
Total: US\$71 million

FINANCIAL TERMS AND CONDITIONS: Amortization period: 40 years
Grace period: 10 years
Disbursement period: 5 years
Interest rate: 1% during the grace period
2% thereafter
Inspection and supervision: 1%
Credit fee: 0.5%

OBJECTIVES: The general objective of the program is to support implementation of the Bolivian government's national housing policy, which is intended to improve the housing of Bolivian families, particularly low-income families. The specific objectives are to: (i) lay the groundwork to enable the real estate and financial markets to operate more efficiently, with more funds channeled into the sector and lower financing, production, and transaction costs; (ii) establish mechanisms to facilitate access to credit by low-income groups; and (iii) introduce a subsidy policy targeted to the poor which includes the provision of basic infrastructure and property titles for families with high indexes of unmet basic needs, through comprehensive improvement programs for unregulated low-income settlements (barrios) and other activities.

DESCRIPTION: The program is part of a legal and institutional reform process whose aims are to reduce housing production, transaction, and financing costs in Bolivia. Most of the decisions and actions identified when the program was being prepared, which are described below, do not necessarily require heavy spending, and the Bank will assist the Ministry of

Housing and Basic Services (MVSb) in achieving the proposed targets.

Review of the legal framework for urban development.

(i) Clarification of the powers and responsibilities of the different levels of government with respect to urban development; and (ii) preparation of complementary regulations to guide municipalities regarding the content of their bylaws and procedures for devising and applying them.

Housing rentals. Changes in the law to facilitate the business of use and occupancy of buildings, for instance, introducing terms in leases and removing rent controls.

Property and mortgage registration. A new registration law which would establish a reliable and efficient registration system affording rapid public access, duly coordinated with the land register.

Mortgage security. Changes in the law to allow mortgages to be converted to negotiable certificates and to facilitate the use of trusts to guarantee loans and/or an administrative system for automatic repossession.

Eviction. Changes in the law to establish expeditious procedures for repossessing properties in the event that a mortgage is foreclosed or a lease is not honored.

Windup of the Fondo Nacional de Vivienda Social (FONVIS) [National Low-Cost Housing Fund]: Assistance to ensure that the process of winding up the old public housing finance agency is completed as quickly as possible.

The program has been divided into three subprograms to support implementation of the housing policy: (1) subprogram A: implementation of legal and institutional reforms in the sector; (2) subprogram B: development of the secondary credit market; and (3) subprogram C: barrio improvement.

Subprogram A. Implementation of legal and institutional reforms in the sector (US\$6.3 million)

The purpose is to assist the government in strengthening the MVSb, providing it with tools for reforming the sector and financing institutional strengthening for the agencies on whose performance

the sector depends. As part of the component to strengthen the MVSB, up to eight consulting positions for up to three years each will be financed. By the start of the fourth year of the program, the functions performed by the long-term consultants are to become permanent line positions in the MVSB.

Subprogram B. Development of the secondary credit market (US\$10.5 million)

To launch a program to promote housing loans through the sale of mortgage-backed securities on the secondary market, an agency will have to begin the process of purchasing, packaging, and securitizing a mortgage portfolio of at least US\$50 million, which is the minimum required to ensure that the fixed costs of the operation will be covered. To reduce the risk of the primary securities and ensure their successful sale, the issue must have at least 20% subordinate securities. This subprogram is intended to give Nacional Financiera Boliviana (NAFIBO) access to long-term funds for maturity-match purposes to keep the subordinated securities in its own position. The government will pass on US\$10 million of the financing to NAFIBO, as a loan on market terms, to (i) purchase mortgages to package and securitize and (ii) purchase mortgage-backed subordinated securities created in the securitization process. NAFIBO will carry out this task under a strategic business plan, as an entity in the course of privatization (currently its capital is mixed) and in accordance with its mission of contributing to the development of the financial market. The enabling regulations of the new Securities Market Act will not contain any restrictions on the entry of purely private entities into the securitization business.

Further, owing to the government's interest in promoting the secondary market and the externalities that the first securitization exercise entails, the government will absorb the costs of: (i) contracting an international investment bank to advise on the structure of the securitization and underwriting; (ii) risk classification; and (iii) the issue and registration of mortgage-backed securities and a study of their sale abroad, for up to US\$500,000.

Subprogram C. Barrio improvement (US\$51.1 million)

Comprehensive improvement projects developed with beneficiary communities to build or improve urban services and regularize land tenure will be eligible. The projects will include community development

actions in low-income neighborhoods. The subprogram will also finance institutional strengthening for each participating municipality.

**THE BANK'S
COUNTRY AND
SECTOR STRATEGY:**

The Bank's strategy for Bolivia proposes priority support for programs to: (i) promote sustained development through support for structural reforms, investments, and higher productivity; (ii) promote reform of the State and decentralization; (iii) improve social conditions through ongoing support for investment strategies and reforms in education, health, and housing, specifically those affording basic services to benefit low-income groups; and (iv) protect and restore the environment (paragraph 1.38).

The proposed program addresses structural and sector problems to facilitate housing loans and construction and makes direct investments to raise the standard of living of the poor (paragraph 1.39).

**ENVIRONMENTAL
REVIEW AND SOCIAL
ASPECTS:**

The program will mainly have a positive environmental and social impact. The new urban development standards and municipal regulations designed under the program will include environmental impact considerations to ensure that urban development respects the environment and minimizes the risks for human conglomerates (paragraph 4.28).

The direct investments to be financed by the program (subprogram C for barrio improvement) will also have a positive impact by providing basic services. Notwithstanding, the executing agency of this subprogram, in compliance with the country's legislation, prepared a strategic environmental impact assessment. It identified potential negative impacts in the infrastructure construction and operating stages and measures to prevent, control, mitigate, and monitor them (paragraph 4.29).

The environmental eligibility criteria in the Operating Regulations of the barrio improvement subprogram include the environmental protection conditions contained in the environment and social impact report (ESIR) and stipulate that the recommendations contained in the strategic environmental impact assessment must be complied with (paragraph 4.30).

BENEFITS:

The program will have the following benefits: (i) creation of more efficient real estate and financial markets, for a larger number of housing solutions in Bolivia; (ii) increased access to

housing by low-income groups through loans; and (iii) provision of new urban infrastructure and property titles for approximately 23,000 families.

RISKS:

During implementation of the housing sector reform

Delays in the passage of the different pieces of legislation could have a substantial impact on development of the real estate and financial markets. To mitigate this risk, the legislative actions have been programmed early in the operation, taking advantage of the favorable political climate for the changes in law proposed by the government.

During the securitization process

Although the securitization plan proposed is simple and has proven to be viable in other countries, Bolivia still needs to develop the conditions and institutions to establish an efficient market for mortgage-backed securities. To mitigate this institutional risk: (i) NAFIBO, which is responsible for the securitization, will be supported by an internationally known investment bank and a rating agency in carrying out this task; and (ii) to develop the environment needed for the new market, the program supports legislation that will promote securitization institutions and legislation for their supervision.

During the barrio improvement projects

Since some municipalities lack experience in identifying, designing, and implementing projects of this kind, decentralized execution of this subprogram entails the risk that the eligibility criteria will not be applied uniformly. To counter this eventuality, the Fondo Nacional de Desarrollo Regional [National Fund for Regional Development] (FNDR) will closely supervise the process of project identification and design.

The operation and maintenance of the projects financed by the program might not be performed using acceptable practices or standards. To mitigate this risk, the municipal executing units will sign agreements to transfer the works to operators, establishing their commitment to maintain them up to acceptable standards. Maintenance of investments for which communities are responsible will be assured by establishing community organizations (or strengthening existing organizations) to take charge of them.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

Conditions precedent to the first disbursement:

The following will be conditions precedent to the first disbursement of the loan: (i) a ministerial decree designating the Unidad de Política de Vivienda [Housing Policy Unit] as program coordinator and evidence that the unit has the core staff necessary to carry out its tasks; (ii) signature of interagency agreements between the Ministry of Finance and the MVSB for implementation of subprogram A and coordination of the program, between the Ministry of Finance (with the MVSB) and NAFIBO, and between the Ministry of Finance (with the MVSB) and the FNDR for execution of subprograms B and C, respectively; and (iii) for subprogram C, establishment of an executing unit in the FNDR and entry into force of the Operating Regulations, model agreements between the FNDR and municipal governments, guidelines for project preparation and presentation, bid documents, and a project control and monitoring manual, agreed on with the Bank (paragraph 3.9).

Other contractual conditions:

For subprogram A: Before the first disbursement under this subprogram, the MVSB administrative management unit must have the capacity to administer the subprogram funds. A prerequisite for strengthening the property register will be the approval of new registration regulations to establish a reliable and efficient registration system with rapid public access, duly coordinated with the land register (paragraph 3.10). By the start of the fourth year of the program, the job positions created to strengthen the MVSB must have been made into MVSB line positions (paragraph 2.5).

For subprogram B: The following conditions must be satisfied before funds can be disbursed for the purchase of mortgages and subordinated securities: (a) NAFIBO must present its strategic business plan, based *inter alia* on the findings of the feasibility study on the mortgage securitization process; (b) NAFIBO must present its plan for purchase and securitization of mortgages; (c) prior to purchasing mortgages, NAFIBO must have developed and introduced rules and procedures for: (i) manuals for real-estate appraisal and mortgage portfolio origination and servicing, and distribution of same to the intermediary credit institutions; (ii) purchasing, packaging, and securitizing mortgages; (iii) master servicing for investors (principal and interest);

(iv) due diligence (the process needed to ensure market acceptance of the securities) regarding registration and reporting systems and taxes and accounting; and (v) creation of a trust fund, with basic requirements and rules for its administration. Mortgage and securities purchases eligible for financing will be limited to: (i) mortgages generated pursuant to NAFIBO rules, (ii) mortgages not generated pursuant to those rules but selected in accordance with criteria established in advance by NAFIBO, and (iii) securities backed by mortgages in the aforesaid two categories. Bank disbursements under this subcomponent require a one-to-four ratio with disbursements from other sources (paragraphs 3.14 and 2.12).

To permit the committee responsible for winding up the National Low-Cost Housing Fund (FONVIS) to complete its work quickly, the loan contract will stipulate that FONVIS's assets are to be sold at prices determined through competitive bidding, even if the prices are below the respective book values (paragraph 2.5).

For subprogram C: During the program, at least 50% of the funds available for the national housing subsidy program (PNSV) will be earmarked for barrio improvements in conformity with the subprogram C Operating Regulations. The remainder will be used for other programs that comply with those Regulations agreed upon with the Bank (see Table I-5).

The prospective loan contract is also to contain provisions for the presentation of annual operating plans, program monitoring and evaluation, presentation of audited financial statements, recognition of costs incurred prior to approval of the loan, use of Bank procedures for the procurement of goods and services and consulting contracts, and maintenance of goods.

**POVERTY-TARGETING
AND SOCIAL
CLASSIFICATION:**

Subprograms A and B provide for fundamental changes in policy which will improve access to housing for middle- and low-income groups. As for the focus of the direct investments to be made under the program, to be eligible, subprojects must be targeted to poor districts where at least 75% of the population are in need of basic sanitation facilities (sanitary sewerage). Accordingly, the program can be classified as poverty-targeted under paragraph 2.15 of document AB-1704 on the Eighth Replenishment of Resources. With respect to paragraph 2.13 of the

same document, this project can be classified as promoting social equity, since it addresses the housing problems of low-income groups (paragraph 4.20).

**EXCEPTIONS TO BANK
POLICY:**

None.

PROCUREMENT:

International competitive bidding is recommended for works costing more than US\$2 million, goods and equipment over US\$250,000, and consulting contracts over US\$200,000 equivalent (see paragraphs 3.38 and 3.40).

Given the number of contracts expected, to streamline program execution and facilitate the Country Office's supervisory activities, at its discretion the Country Office may agree with the executing agency to perform ex post reviews of samples of contract documents under US\$500,000 for works, US\$50,000 for equipment and goods, US\$50,000 for consulting firms, and US\$25,000 for individual consultants (paragraph 3.41).

I. FRAME OF REFERENCE

A. Population growth, urbanization and housing

- 1.1 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. The main factor that explained growth in the cities was migration from the countryside as a result of structural transformations in the economy.
- 1.2 This rapid growth had a marked impact on the nature of the urban development process and the housing situation. The number of cities with populations over 100,000 rose from four to seven. The largest cities (La Paz, El Alto, Cochabamba, and Santa Cruz de la Sierra) are home to 64% of the urban population. Accommodation in cities, including houses, apartments, individual rooms, and shanties, doubled over the period, as can be seen in Table I-1.

Table I-1
Urban and rural growth. 1976-1992 censuses
(in millions)

Year	1976			1992		
	Total	Urban	Rural	Total	Urban	Rural
Population	4.52	1.87	2.65	6.30	3.61	2.67
Housing units	1.13	0.43	0.70	1.69	0.87	0.82

- 1.3 As is common in other Latin American countries, this growth has been haphazard and has not been accompanied by the necessary investments in public services. Although exact figures are unavailable, estimates suggest that about one third of the housing built each year is unofficial, which contributes to the formation of unregulated settlements. In other words, a large part of urban growth is accounted for by unauthorized developments and lots (not legalized), poor quality buildings, and the lack of community spaces and adequate urban services. The 1992 census indicates that for urban areas, 25% of housing is one-room units, shacks or other ramshackle units; 19% has no access to water; 58% has no running water indoors; and 37% has no sanitary services of any kind.
- 1.4 From the above figures and those presented in Table I-2, it can be deduced that at least 40% of urban housing, or 350,000 units, is substandard. Taking a conservative estimate that each dwelling would require US\$3,000 to bring it up to minimum construction and utilities standards, over US\$1 billion would be required simply to remedy the existing situation.

Table I-2
Family and housing profiles in the main urban areas
Data for 1990-1992

Profiles	Income quintile				
	1st	2nd	3rd	4th	5th
Household:					
- Monthly income (US\$)	80	150	220	325	770
- Number of family members	5.4	5.3	5.1	4.8	4.0
Housing:					
- With dirt floors	33%	21%	14%	8%	1%
- With access to water	82%	82%	86%	89%	94%
- Piped-in water	10%	25%	50%	85%	90%
- Private sanitary facilities	24%	45%	54%	65%	90%

- 1.5 The process of urbanization and informal housing construction in Bolivia has two advantages over other Latin American countries. The first is that the city lots have generally been purchased and have not been illegally invaded. In general, the low-income settlement or district (barrio) needs to be formalized with the respective municipal government and the transactions officially registered to legalize ownership. The second is that many dwellings occupied by the poor are built with decent materials (chiefly adobe) which makes them less flimsy than is the case elsewhere. However, 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 for loans. Unauthorized occupation also restricts the amount of space available for schools, parks and community centers.
- 1.6 Informal urban settlements have grown up as a result of the pressing need for housing by migrant families with low purchasing power and unstable incomes, and the lackluster response by formal real estate and financial markets to their requirements. As will be seen later, the poor market response is due to: (i) lack of a legal framework for urban development that properly defines the powers and responsibilities of the different levels of government and that guides 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 would 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 Real Property Rights Registration Office that is antiquated in its organization and does not provide

sufficient certainty regarding property titles; and (iv) a deficient and poorly targeted public policy for financing housing.

B. Government institutional framework

- 1.7 Current legislation gives the national and municipal governments limited responsibilities and powers for dealing with urban planning and housing. Urban development is only regulated under scattered provisions in the Civil Code and certain concrete legal instruments such as the Real Property Rights Registration Act (1887), the Urban Reform Act (1956), the Expropriation Act, the Housing Act, the Municipalities Act (1996), the Civic Participation Act (1995), and the Administrative Decentralization Act (1996). The Ministry of Housing and Basic Services (MVSBS) has the legal power to regulate and control national urban planning and housing.
- 1.8 The country's legislation does not include specific standards for urban development, land use, or housing types and construction. Most of the regulations are contained in local ordinances with limited legal force.
- 1.9 The Municipalities Act (central government general legislation) guides municipalities on the regulations they should issue for city design, administration, and finances. However, there is an obvious lack of support and/or regulations for action by the municipalities in specific areas such as urban planning, land development and lot occupancy and use, land registers, and minimum housing construction standards. A bill has been proposed for a new municipalities act that will partly correct these defects.

C. The real estate market

1. Supply of land

- 1.10 As noted earlier, there is no general, modern and coherent legislation to spur the supply of suitable building lots for city expansion. Although some national regulations exist with respect to urban development and each municipality has its own regulations, the inability to enforce them has made many of them useless. In many cases, the urban development process is driven by the action of different economic agents who promote and arrange unregulated subdivisions, in violation of city planning regulations and, generally, with no provision for basic servicing of the lots or for transferring ownership to their buyers. In some municipalities, more than 70% of the property is not under the control of city hall.
- 1.11 In short, the formal supply of building lots or serviced lots has been restricted by: (i) the absence of a legal framework to permit and guide the formulation of local development policies for land use, subdivisions, and the provision of public services in line with the public's ability to pay; (ii) the inability of the

municipalities to manage urban development owing to the shortage of technical and human resources; and (iii) the gap between the demand for low-cost housing and the construction standards established in existing regulations.

2. Housing construction

- 1.12 There are many companies and general contractors that operate on the formal market for the construction of middle- and high-cost housing. Informal housing in areas that generally lack public services typically begins with a small lean-to built by the owner at the back of the lot to shelter his family. He then fences the lot in with an adobe or brick wall. 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 m² and is expanded according to need and financial means. The building is done by the family or through community effort. The original structures lack proper supports and the roofs are not impermeable. When the family moves into the permanent dwelling, it rents the initial structure out to a recently-arrived family or uses it as a storage shed or workshop.

3. Market transactions

- 1.13 There are five main types of transactions performed on the formal real estate market in Bolivia: purchase/sale, rental, antichresis, leasing with option to purchase, and mortgages. All pose some kind of problem that raises transaction costs and holds back development of the real estate market, as can be seen in Table I-3.

D. The housing finance system

- 1.14 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". In 1992 the government established the National Low-Cost Housing Fund (FONVIS), which was dismantled this year as a result of the new housing policy.

Table I-3 Market transactions

1. Buying and selling. Approximately half of urban families own their own houses. Buyers in general, and low-income buyers in particular, are not well informed or are poorly advised about the process to be followed to buy a lot or a home. This is compounded by the costs and the length of the process, with the consequent economic strain.

The lots available on the land market for low-income groups do not have secure, clear titles or comply with city standards, and are not serviced. But they have one key virtue: they are the only lots available on the market that give low-income families an alternative to squatting or other forcible alternatives. In fact, only a very few minor episodes of incursions onto urban land or property have been reported. In general, the first lots in a new unregistered subdivision are offered at low prices and under favorable payment conditions. In the best of cases, the seller's documentation is very dubious. As the development fills up, the buyers begin to pressure for improvements in access and services, through different channels and procedures (neighborhood groups, local political parties or leaders, denominational groups, etc.). Some improvements are gradually obtained, as is slow recognition of the de facto situation. All these steps are supported and used by the vendors to raise the price of the unsold lots.

The administrative and operational aspects of public guarantees of property rights leave much to be desired. The Real Property Rights Registration Act is basically limited to conferring validity on duly notarized private contracts, but is not in a position to establish whether a property is subject to legal restrictions on ownership or other claims, or even, at times, whether it is already registered in the names of other owners. Deeds do not convey certainty regarding location, lot size, or other features of a property. There is no linkage between the Real Property Rights Register and the badly out-of-date municipal land registers. The result is constant problems with ownership (various owners of the same lot, problems with overlapping boundaries, etc.).

The complete cycle of legalizations and permits needed to legalize an existing urban development can take 15 months and costs about US\$250 for each of the lots. Differences from city to city are significant. For new developments, the process can take up to a year (if no objections are raised) and the cost is about US\$200 per lot. Many formalities and documents are required and the process can involve as many as 70 steps.

2. Housing rentals. Twenty-six percent of urban housing is rented; the percentage is somewhat lower for the bottom quintile (19%). Sixty-four percent of rentals are rooms; here, the percentage is much larger for the lower quintiles (82.6%) though the figure is as high as 23% even for the wealthiest quintile. Rent accounts for an average of 13.8% of household spending by renters.

Existing legislation impedes the development of a rental housing market, since leases have no end date and can be passed on to the heirs of the lessee. Thus rented housing is ceded in perpetuity and can only be recovered in the event that any of the grounds for eviction expressly recognized in the law exist. Further, the owner must go to court to obtain an eviction order, which is a lengthy and complicated procedure. One extreme example of legal insecurity is that title to rental property on grounds of continuous occupancy has been claimed after the 10 years established in the Civil Code. Current legislation limits rent to 10% of the assessed property value.

To sidestep these restrictions, the practice of antichresis, originally applied to farms, has been extended to the 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.

3. 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 the eviction laws. Once this failing in the rental laws is corrected, considerably less use of this form of contracting is expected.

4. Leasing (houses and commercial premises). There is no special legislation governing operations of this kind and therefore there is uncertainty regarding the recovery of the property if the contract is canceled, particularly properties rented as housing, since commercial premises have some legal protection. Thus, leasing of accommodation encounters problems similar to those of renting, mainly with respect to recovery of the premises.

5. Mortgages. Current legislation recognizes mortgages as real-property guarantees in widespread use on the real estate market. However, some gaps in legislation and certain practices limit wider use of mortgages, particularly the time it takes to register them in the Real Property Rights Register (a necessary condition for priority status in the case of default), and the difficulty in foreclosing, which is sometimes slow and open to abuse in the form of appeals and incidental pleas that add to the cost in time, fees, and expenses needed to actually recover a property. As a result, the market demands an excessively high mortgage-to-loan ratio, which is a barrier to low-income groups.

- 1.15 About 50% of the 23,000 houses built each year are financed and/or built by the institutions mentioned, while the rest are built using personal savings. Table I-4 shows the stock of term deposits and savings in the financial system that could potentially be invested in housing, as of July 31, 1997.

Table I-4
Availability of funds - July 1997
Term deposits and savings

Entity	US\$ million	Percentage of total
Banks	2,213	77
Mutuals	333	12
Cooperatives	142	5
FONVIS	189	6
Total	2,877	100

- 1.16 Only a fraction of these savings is in fact invested in housing (approximately US\$300 million, with estimated annual growth of some US\$50 million), in part because the deposits in question can be withdrawn on short notice (except for FONVIS deposits), which is a major risk for an institution granting long-term mortgages. If we add anticipated pension fund holdings (US\$240 million per year) to the figures in Table I-4 and look at the high cost of financing and the short terms of loans, the urgency and desirability of establishing maturity-transformation instruments and creating a secondary mortgage market, such as is proposed in this operation, is clear.
- 1.17 The incentives for financial intermediaries to sell their portfolio to a securitization agency lies in their need to match the terms of their mortgages to those of their sources of financing, to reduce the high levels of risk they currently bear. The demand for high-quality securities will come from the US\$100 million that the pension funds can legally invest each year in these instruments (40% of the US\$240 million they collect annually) and from insurance companies and the financial intermediaries themselves, for whom the securities would be investments providing greater liquidity and less risk than their mortgage portfolios. In initial conversations, the intermediaries and pension fund administrators expressed interest in participating in a secondary market such as the one described.

1. Financial intermediaries

- 1.18 Commercial banks, with a few exceptions, are not interested in granting housing loans in general, since they do not have sources for long-term financing and/or compatible maturity-transformation mechanisms. Further, owing to their lack of experience, their perception of the credit risk, and the high administrative costs of making loans and collecting them, the banks do not work with low-cost housing.
- 1.19 The savings and loan mutuals were established with the specific purpose of making loans for housing and related activities. The

system, which is currently composed of 13 mutual banks (four large, three medium-sized, and six small), accounts for approximately 10% of total savings in the Bolivian financial system and grants close to 12,000 housing loans a year.

- 1.20 The mutual system operates in a complex legal context as a result of laws that changed the financial system's regulatory framework. They ceased to be regulated and supervised by their own central board, becoming part of the national financial system regulated by Banco Central de Bolivia [Central Bank of Bolivia] and supervised by the Superintendencia de Bancos y Entidades Financieras [Office of the Superintendent of Banks and Financial Institutions] (SBEF). In practice, the mutuals pay interest to depositors instead of dividends to shareholders, thus deviating from their role as mutual associations. In the aftermath of hyperinflation and poor management, the small mutuals (the majority) have problems in remaining solvent and operational, since they cannot meet capital adequacy requirements. To solve these problems, the SBEF and the Central Bank are studying proposals to permit the large mutuals to become banks and to allow solvent mutuals to absorb insolvent ones.

2. National Low-Cost Housing Fund (FONVIS)

- 1.21 FONVIS was established in 1992 to administer compulsory employees' (1%) and employers' (2%) contributions and to spur the construction of low-cost housing. Workers in the formal sector currently number 550,000 (FONVIS has only 330,000 on record) and estimated contributions for 1997 are close to US\$25 million.
- 1.22 FONVIS's main mission was to act as a source of wholesale funds which primary lenders could offer as long-term housing loans. In 1994, FONVIS adopted two strategies for channeling funds for housing construction: (i) granting loans to financially healthy mutuals under the Habitat program; and (ii) earmarking the bulk of its resources for a trust program, 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 FONVIS assumed the risk. 1/
- 1.23 FONVIS is simply the final manifestation of a policy that favored public institutions dedicated to housing finance and/or construction. The results have been very unsatisfactory both with

1/ The banks, many in weak financial positions, that participated in FONVIS 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.

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.

- 1.24 Because of these failings, the new government decreed that FONVIS be closed and liquidated, as part of its housing policy (see Table I-5).

E. Features of the general financial system

- 1.25 Today, Bolivia has a relatively solid financial system in which most of the institutions are solvent. It is reasonable to expect that this situation will continue if the financial entities continue to be well managed and obtain reasonable returns, also assuming that the economy performs acceptably. Of all the financial intermediaries supervised by the SBEF (17 banks, 13 housing savings and loan mutuals, 17 credit unions, and six private financial funds), the commercial banks hold 88% of assets, 81% of liabilities, and 70% of total capital.
- 1.26 The Bolivian financial system has developed remarkably since 1985. Deposits have grown from US\$60 million in December 1985 to over US\$3 billion at the end of December 1997. The deepening of financial intermediation can be explained by the country's economic stability and by a legal framework that has permitted the financial market to develop. In principle, Supreme Decree 21060 of 1985 freed up financial intermediation activities by: (i) liberalizing interest rates and transactions in different currencies; and (ii) reducing legal reserve requirements. The Banks and Financial Institutions Act of April 1993 consolidated the freedom of the financial system and defined a new regulatory framework.
- 1.27 During the most recent crisis in the national banking system which began in November 1994, there was a major run on deposits in certain banks in particular, which had a severe impact on the system's solvency and liquidity. Timely intervention by the Central Bank of Bolivia to cover the liquidity requirements of banks that had closed or were in trouble, for about US\$340 million, and the subsequent creation of the Financial System Development Fund (FONDESIF) and support for the productive sector, averted a crisis that could have seriously jeopardized stability and economic policy implementation capacity. FONDESIF's contribution to the solvency of the banking system as a whole during 1996 and early 1997 has been extremely important: it has granted subordinated loans, purchased bad portfolios, and provided structural liquidity credit for various entities in the system. The stabilizing role played by the SBEF by identifying and acting firmly to deal with solvency problems in the banking sector is also worthy of mention.
- 1.28 Bolivia has asked the World Bank to finance a sector adjustment operation to improve certain aspects of bank supervision and regulation, the functioning of the savings and loan mutuals, and

the general institutional framework of the financial system and capital market. The operation is currently being prepared.

F. Government housing policy

- 1.29 Based on the preparatory studies for this operation, the new Bolivian government has devised changes to its housing policy that reflect a comprehensive vision of the sector and form the key parameters for the present program. The policy changes consist of redesigning the sector's legal and institutional framework, revamping the housing finance system, and introducing a national housing subsidy program (PNSV), as described in Table I-5.

Table I-5. Housing policy

1. Reform of the sector's legal and institutional framework

This reform will consist of:

- a. Changes in the legislation governing urban development to reduce the costs of site development and construction.
- b. Legal amendments regarding rentals, property and mortgage registration, origination and foreclosure of mortgages, eviction, and other aspects, to reduce the transaction costs and risks on the real estate and housing finance markets.
- c. Passage of the Securities Act and the Insurance Act and their respective regulations.
- d. Promotion in the municipalities of: (i) the adoption of urban planning and construction regulations and standards that will lower the cost of legitimate housing; (ii) better land management to increase the supply of low-cost building lots; and (iii) better coverage of land registers and coordination with the property registers.
- e. Strengthening of public and private institutions that affect sector performance.

2. Reorganization of the housing finance system

Consists of measures with a major impact on the sector, including:

- a. The closure and liquidation of FONVIS, since it has not fulfilled its mandate. The employee and employer contributions of 1% and 2% on wages, respectively, will continue 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 program. ^{2/}
- 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 securitization of mortgages and the necessary guarantee mechanisms. Nacional Financiera Boliviana (NAFIBO), as the second-floor bank, will be the initial conduit for the system of mortgage securitization, but purely private entities which organize for that purpose and comply with the regulations will also be allowed to act as channels. ^{3/}
- 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. Preparation and introduction of regulations to require the mutuals that continue as such to comply with operating rules consistent with good governance (including the requirement to pay dividends instead of interest). Mutuals with negative net worth would be liquidated or given special treatment.

3. National housing subsidy program (PNSV)

Consists of the following measures to assist low-income groups:

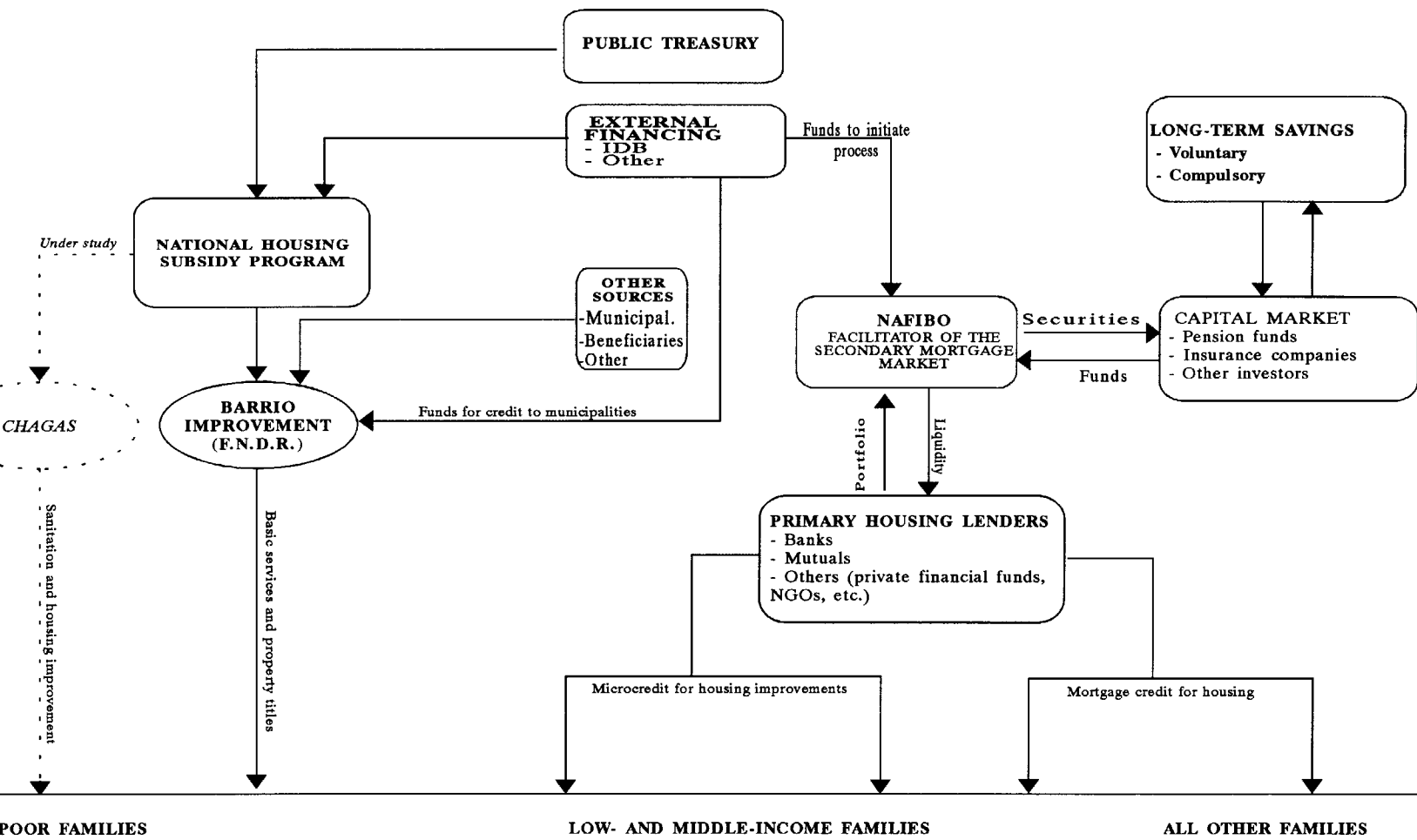
- a. Creation of a national subsidy program to channel subsidies to improve the housing situation of low-income groups. The PNSV was created in January of this year. Its sources of funding will be the 2% employer contribution on total payroll, external loans and grants, voluntary municipal contributions, and any proceeds from the liquidation of FONVIS. The PNSV will be an umbrella program that can include a variety of subprograms provided they comply with the criteria to be established. Over the period 1998-2001, approximately US\$112 million will be generated by the 2% employer contribution. What is not used to pay pensions under the ESAF (IMF program) will be available for housing subsidies (an estimated US\$48 million). Starting in 2002, approximately US\$28 million a year will be available for the PNSV.
- b. Creation within the PNSV of a barrio improvement subprogram which will finance comprehensive projects with community and municipal participation involving investments in physical and social infrastructure in unregulated barrios in different cities. During the program, at least 50% of the 2% employers' contribution available to the PNSV (and never less than US\$10 million) will be used for barrio improvement. The remainder will go to other programs that comply with PNSV's operating regulations.
- c. Study and implementation of other ways of channeling PNSV funds. A subprogram to combat Chagas' disease in suburban and rural areas is currently under study (in this effort the MVS is coordinating with the Ministry of Health under the epidemiological shield component of program BO-0015).

^{2/} By Supreme Decree 24935 published in the Official Gazette of Bolivia on January 19, 1998, the government ordered the creation of the national housing subsidy program and the closure and liquidation of FONVIS.

^{3/} See Annex I-1 in the technical files of RE1/S01 for a full description of the securitization process proposed for Bolivia.

- 1.30 The changes in the legal and institutional framework proposed under the new policy will reduce the construction, transaction, and financing costs of housing, which will have an effect on all population groups, including low-income sectors. By improving municipal administration, more low-cost land for legal housing developments will be available and the cost of complying with municipal land-use and construction standards will be lower. Further, the changes proposed in the legislation governing rentals and evictions will encourage more investments in low-cost rental housing.
- 1.31 The reduction in the cost and the increase in certainty of registering property and mortgages and the regularization of property titles will allow families with small properties to gain access to credit, even if in modest amounts, to gradually improve their houses. The creation of a secondary mortgage market will boost the flow of long-term funds for mortgages which, coupled with the legal changes in registration and security requirements, will lower the cost of mortgage financing and lengthen the repayment term, giving more families the possibility of buying a house. However, in the initial stages of the secondary market, the main beneficiaries will probably be high- and middle-income groups.
- 1.32 Last, under the national housing subsidy program, the government will invest directly in providing basic services and property titles for the very poor, which will dramatically improve their standard of living. Clean property titles make the holders eligible for loans. Figure I-1 presents an overview of the housing finance system.

Figure I-1
GENERAL HOUSING FINANCE SYSTEM



G. Experience of the Bank and other institutions in the sector

- 1.33 The IDB has been supporting the urban sector directly through operations being carried out by the National Fund for Regional Development (777/OC-BO, 987/SF-BO) and the Social Investment Fund (950/SF-BO), and the World Bank also provides support. These operations have mainly been intended to upgrade infrastructure and the coverage of public services and to strengthen municipal administration systems, including urban land registers, although this last aspect has not progressed as well as expected. Under its basic sanitation operation (987/SF-BO) the Bank will support concession of water and sewerage services to the private sector and strengthening for the commission that will regulate them.
- 1.34 In the financial sector, up to 1991 the Bank had approved six global credit operations worth US\$258.2 million under the sector-targeted credit approach at fixed interest rates. In March of that year, loans 830/SF-BO (global agricultural credit program) and 564/SF-BO (global industrial and tourism sector credit program) were reformulated to make them multisectoral and introduce an auction mechanism for the financial intermediaries, which frees the interest rate. Loan 629/OC-BO (global multisector credit program) for US\$60 million was approved in September 1991, entailing the auction system as well. Its second stage, loan 939/SF-BO for US\$70 million, was approved in December 1994. 4/
- 1.35 In 1995, loan 939/SF-BO was reformulated, expanding the objectives to permit financing for the purchase of portfolios, loans for liquidity, and subordinated loans to capitalize institutions affected by the crisis in the sector. The operations that the Bank is preparing for the sector in 1998 are intended to provide more support for microcredit under a global credit program for microenterprise (BO-0171) and to promote the development of the capital market under three MIF operations to strengthen the superintendencies of securities, banks, and pension funds, respectively.
- 1.36 In the housing subsector, the IDB provided a Project Preparation Facility (PPF) (ATN/SF-4049-BO) in 1992 and in 1995 it financed preparatory studies for the present operation under PPF/007-BO (940/SF-BO). Subsequently, owing to the shortage of concessional resources, the Bolivian government asked to have the operation postponed indefinitely. However, the findings of the studies were widely divulged and discussed and a consensus was reached on the necessary reforms.

4/ This operation makes housing eligible for financing once the problem of delays in the foreclosure of mortgages is solved and the extent and type of demand for financing of this type is determined.

- 1.37 In 1997, the new government adopted the sector reform, along the lines that had been discussed, as part of its agenda. This operation is an example of the catalytic role that the Bank can play in promoting change in the member countries. Further, to speed up the reform process and certain activities related to compliance with the conditions precedent to the first disbursement of the prospective loan, the MVSb, through the Ministry of Finance, asked the Bank for a new PPF for up to US\$700,000 which the Bank is currently processing.

H. The Bank's country strategy

- 1.38 The Bank's strategy for Bolivia proposes priority support for programs to: (i) promote sustained development through support for structural reforms, investments, and higher productivity; (ii) promote reform of the State and decentralization; (iii) improve social conditions through ongoing support for investment strategies and reforms in education, health, and housing, specifically at the basic service level, to benefit low-income groups; and (iv) protect and restore the environment
- 1.39 The present operation is intended to remedy structural and sector problems in order to facilitate housing loans and construction on the one hand, and to invest directly in improving the standard of living of the poor, on the other.

II. THE PROGRAM

A. Objectives

- 2.1 The general objective of the program is to support implementation of the Bolivian government's national housing policy, in order to improve the housing situation of Bolivian families, particularly low-income families. The specific objectives are to: (i) lay the groundwork to enable the real estate and financial markets to operate more efficiently, with more funds channeled into the sector and lower financing, production, and transaction costs; (ii) establish mechanisms to facilitate access to credit by low-income groups; and (iii) introduce a subsidy policy targeted to the poor which includes the provision of basic infrastructure and property titles for families with high indexes of unmet basic needs, through comprehensive improvement programs for unregulated low-income barrios and other activities.

B. Description

- 2.2 As mentioned in chapter I, the program is framed in a context of legal and institutional reforms, whose objectives are to reduce production, transaction, and financing costs for housing in Bolivia. Although most of the decisions and actions identified when the program was being prepared, which are described below, do not necessarily require heavy spending, the Bank will assist the Ministry of Housing and Basic Services (MVSB) in achieving the planned targets: 5/

- (i) Review of the legal framework for urban development.
(a) Clarification of the powers and responsibilities of the different levels of government with respect to urban development; and (b) preparation of complementary regulations to guide municipalities regarding the content of their bylaws and procedures for preparing and applying them.
- (ii) Housing rentals. Changes in the law to facilitate the use and occupancy of buildings, which would introduce terms in leases and remove rent controls.
- (iii) Property and mortgage registration. A new registration law which would establish a reliable and efficient registration system affording rapid public access, duly coordinated with the land register.

5/ See Annex II-1 in the technical files of RE1/S01 for more details on these legal matters.

- (iv) Real-property guarantees. Changes in the law to allow mortgages to be converted to negotiable certificates and to facilitate the use of trusts to guarantee loans and/or an administrative system for automatic repossession.
 - (v) Eviction. Changes in the law to establish expeditious procedures for repossessing properties in the event that a mortgage is foreclosed or a lease is not honored.
 - (vi) Other regulatory changes. Condominium ownership: additions to the legislation defining the rights and obligations of co-owners and establishing rules governing promoters, builders, and buyers. Leasing: regulations governing specific aspects of financial leasing not covered in the Civil Code.
 - (vii) Windup of the National Low-Cost Housing Fund (FONVIS). To ensure that liquidation is completed as quickly as possible.
- 2.3 The program has been divided into three subprograms to support implementation of the housing policy: (1) subprogram A: implementation of legal and institutional reforms in the sector; (2) subprogram B: development of the secondary credit market; and (3) subprogram C: barrio improvement, as part of the National Housing Subsidy Program (PNSV).
1. Subprogram A. Implementation of legal and institutional reforms in the sector (US\$6.3 million)
- 2.4 The purpose is to assist the government in strengthening the MVSB by providing it with tools for reforming the sector. See Annex II-1 in the technical files of RE1/S01 for further details. The subprogram contains the components described below.
- a. Institutional strengthening (US\$4.1 million)
- 2.5 This component is intended to establish modern structures and practices in agencies of strategic importance for sector development:
- (i) Ministry of Housing and Basic Services (US\$900,000). Will financing consulting services, equipment, and systems to strengthen strategic MVSB units to enable them to develop, promote, and monitor sector reform and to manage, monitor, and continuously evaluate the housing sector. As part of this component, up to eight consulting positions will be financed for up to three years each. By the start of the fourth year of the program, the functions performed by the long-term consultants are to have been made into permanent line positions in the MVSB.

- (ii) Property and mortgage registration (US\$2.1 million). 6/ Will finance consulting services, equipment, and systems to modernize the records office. Prior to the first disbursement for this component, new rules governing the register, as described in paragraph 2.2 (iii), must have been approved.
 - (iii) Promotion of demand (US\$100,000). Will finance training and information about systems to enable low-income beneficiaries to band together to obtain loans from the financial system, based on the standards established by NAFIBO for packaging mortgages, and other activities.
 - (iv) Committee to liquidate the National Social Housing Fund (US\$1 million). Will finance legal, financial, and economic studies to appraise FONVIS's portfolio and assets and plan their sale or transfer. The government has requested that the Bank participate in this operation, which will help to improve the transparency and efficiency of the liquidation process. It has been agreed that the loan contract will stipulate that FONVIS assets are to be sold for amounts determined through competitive bidding, even if such values are below book values.
- 2.6 Complementary actions to strengthen supervision of the financial sector, NAFIBO, and intermediary credit institutions will be financed in parallel, through other IDB and World Bank operations currently under way or in preparation. 7/ The program under

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- 6/ The Nordic Development Fund has indicated its interest in funding this component. If such an arrangement were to materialize, the resources allotted to the component would be reallocated.
- 7/ Items (i) to (iv) below will be financed under IDB/MIF operations or World Bank technical assistance parallel to the proposed financial sector operation. Item (v) will be financed under a TC loan parallel to loan 939/SF-BO and item (vi) will be included in the microcredit operation currently being processed by the Bank (BO-0171). (i) Office of the Superintendent of Banks and Financial Institutions: consulting services to design and support the introduction of criteria for the supervision and control of second-floor entities that manage mortgage-backed securities; (ii) Office of the Superintendent of Insurance: consulting services to produce enabling regulations for the Insurance Act; systems and equipment for its effective functioning, including those necessary to develop economical insurance instruments for the real estate market; (iii) Office of the Superintendent of Securities: consulting services to draw up enabling regulations for the Securities Act; systems and equipment for its effective functioning, including those necessary to support the market for trading mortgage securities; (iv) Office of the Superintendent of Pension Funds: consulting services to develop systems and equipment for its

consideration here could provide supplementary financing for activities not covered.

b. Temporary landlord-tenant affairs offices (US\$500,000)

- 2.7 Temporary outreach offices will be established in Bolivia's four largest cities to study and address problems relating to rentals, evictions, and the housing market during the transition to the new legal framework for real estate (one year). The purpose is to ensure direct dialogue between the government and low-income groups affected by the proposed changes.

c. Sector studies, seminars, and visits (US\$1.2 million)

- 2.8 This component will finance: (i) preparatory studies, preliminary proposals, workshops, and preparation of the legal instruments required to introduce the reform; (ii) studies and regulations for the application of different aspects of the housing policy; (iii) complementary studies on which to base decisions to adjust or improve the housing policy, including a follow-up study on eight comprehensive barrio improvement projects; (iv) seminars and conferences; and (v) other activities.

d. Communications plan (US\$500,000)

- 2.9 A consolidated plan of events, meetings, videos, publicity spots on radio and television, opinion polls, press articles written by specialized journalists, publicity inserts, and other activities to inform the general public and groups directly affected (informal settlements, employees and employers, financial institutions and construction companies) about the feasibility and benefits of the program, its modernizing function, mechanisms for participation in it by employees, financial institutions, and entrepreneurs, and the linkage between the project and demands for efficiency and equity.

2. Subprogram B. Development of the secondary market
(US\$10.5 million)

- 2.10 To launch a program to promote housing loans through the sale of mortgage-backed securities on the secondary market, an agency will have to begin the process of buying, packaging, and securitizing a

effective functioning under the National Pensions Act, including those necessary to facilitate the purchase of mortgage securities by pension fund administrators; (v) NAFIBO: consulting services, equipment, and training in mortgage portfolio origination, appraisal, and administration; and (vi) intermediary credit institutions: consulting services to introduce banking techniques for attracting savings and originating and servicing mortgages, and for small loans for step-by-step construction, in order to increase housing financing and serve low-income groups.

mortgage portfolio of at least US\$50 million, which is the minimum amount required to ensure that the fixed costs of the operation will be covered. To reduce the risk of the primary securities and ensure their successful sale, the issue must have at least 20% subordinate securities. 8/ This subprogram is intended to give NAFIBO access to the long-term funds it needs for maturity-match purposes to keep the subordinated securities in its own position. 9/ The government will pass on US\$10 million of the financing to NAFIBO, as a loan on market terms, to (i) purchase mortgages to package and securitize and (ii) purchase mortgage-backed subordinate securities created in the securitization process. NAFIBO will carry out this task under a strategic business plan, as an entity in the course of privatization (currently its capital is mixed) and in accordance with its mission of contributing to the development of the financial market. The enabling regulations of the new Securities Act will not contain any restrictions on the entry of purely private entities into the securitization business.

- 2.11 Further, owing to the government's interest in promoting the secondary market and the externalities that the first securitization exercise entails, the government will absorb the costs of: (i) contracting an international investment bank to advise on the structure of securitization and underwriting; (ii) risk classification; and (iii) the issue and registration of securities and a study of their sale abroad, for up to US\$500,000.
- 2.12 Mortgage and securities purchases eligible for financing will be limited to: (i) mortgages generated pursuant to NAFIBO rules, (ii) mortgages not generated pursuant to those rules but selected in accordance with criteria established in advance by NAFIBO, and (iii) securities backed by mortgages in the aforesaid two categories.
- 2.13 As the first stage in the process of forming the mortgage portfolio, the conditions of loan 939/SF-BO will be eased to permit loans to be granted to the housing sector (rediscounts) to solve the problem of the mismatch in terms and establish a portfolio to NAFIBO standards.

3. Subprogram C. Barrio improvement (US\$51.1 million)

- 2.14 Comprehensive barrio improvement projects prepared together with beneficiary communities to build or upgrade urban services and regularize land tenure will be eligible. The projects will include

8/ The subordinated securities absorb the greatest risk since they are the last to be serviced by the interest and principal generated by the mortgage portfolio.

9/ For more information see Annex II-3 in the technical files of REL/SO1.

social outreach actions in these neighborhoods. The subprogram will also finance institutional strengthening for each participating municipality.

a. Comprehensive barrio improvement projects

- 2.15 Based on the physical and social characteristics of an area, investments may include: (i) potable water distribution system and house connections (inside connections when necessary); (ii) sewerage systems or alternatives for waste disposal; ^{10/} (iii) surface or underground storm drains; (iv) paving for access and local roads (including steps and sidewalks); (v) electrification and street lighting; (vi) sanitary modules on lots (with showers, washbasins, and toilets and an exterior water connection) when necessary; (vii) environmental protection (forestation, tree planting along roads, soil stabilization); (viii) community equipment (community centers, day-cares); (ix) trash management; (x) property legalization; and (xi) community development and sanitary education (strengthening of community organizations and health education activities including the subject of disease transmission).
- 2.16 In addition to providing basic sanitation solutions, inclusion of a community development component will be a priority in all cases in order to: (i) support the establishment, consolidation, and organization of grass-roots community organizations; (ii) spur community mobilization processes such as the establishment and operation of community centers and rules for the creation of community funds; and (iii) provide guidance for the community in monitoring project implementation and operation.
- 2.17 In all cases, project planning on the local level will be carried out in the context of the Civic Participation Act, which stipulates that community organizations must have input into all stages of the investment cycle. This will ensure that community preferences are taken into account in project preparation and that the community has a sense of project ownership.
- 2.18 Beneficiaries will receive property titles that are registered in the Real Property Rights Registry. To facilitate the obtention of titles, funds will be provided to cover the costs of registering in the municipal land register and in the Real Property Rights Register, and other related costs.
- 2.19 For each project, it will also be ensured that public utility companies are available (including trash collection services), and

^{10/} Depending on local conditions, expansion of sewer systems and connections, or stand-alone individual or communal solutions may be financed.

that they are willing to operate and maintain the infrastructure once the project is completed.

b. Participation agreements

- 2.20 To participate in this subprogram, municipal governments must undertake to modernize their land registry systems, revise their regulations, including urban planning and construction standards and municipal procedures, and take concrete steps to facilitate urban growth and the regularization of unplanned settlements.

c. Municipal strengthening

- 2.21 The subprogram will include funds for technical support for the municipal governments participating in the program in: (i) developing the capacity and instruments needed to modernize or introduce city planning legislation (urban development or master plans, building ordinances, land use and subdivision rules, and others), and to comply with the conditions of the participation agreements; and (ii) training for municipal executing units in promotion, preparation of preliminary designs, and supervision of barrio improvement projects.

C. Scale

- 2.22 Subprogram A was scaled on the basis of requirements for implementing the national housing policy, as described in this chapter. Subprogram B was scaled by reference to the capital required by NAFIBO to float the first issue of mortgage-backed securities, as explained earlier. For subprogram C, data on qualitative and quantitative shortfalls (see chapter I) indicate that potential demand will be much higher than the funds available. The eligibility criteria established for this subprogram will ensure that the funds will benefit as many families as possible. It is estimated that this subprogram will help provide approximately 23,000 housing solutions.

D. Program cost and financing plan

1. Cost

- 2.23 The Bank will finance the equivalent of US\$60 million of the total program cost of US\$71 million. A breakdown by cost items and sources of financing is presented in Table II-1.

Table II-1
Program cost
(in US\$ million)

	IDB/FSO	Bolivian govt.	Total	%
1. Administrative costs	0.80	0.20	1.00	1.4
1.1 Consultants	0.30	0.10	0.40	
1.2 Other services	0.47	0.10	0.57	
1.3 Equipment	0.03	-	0.03	
2. Subprogram A. Implementation of legal and institutional reforms in the sector	5.50	0.80	6.30	8.9
2.1 Institution-strengthening	3.80	0.30	4.10	
2.2 Landlord-tenant affairs offices	0.30	0.20	0.50	
2.3 Sector studies, seminars, visits	1.00	0.20	1.20	
2.4 Communications plan	0.40	0.10	0.50	
3. Subprogram B. Development of the secondary mortgage market	10.50	-	10.50	14.8
3.1 Consultants	0.05	-	0.05	
3.2 Other services	0.45	-	0.45	
3.3 Purchase of mortgage portfolio	10.00	-	10.00	
4. Subprogram C. Barrio improvement (PNSV)	41.10	10.00	51.10	72.0
4.1 Administration	0.60	0.20	0.80	
4.2 Credit funds for projects	8.00	-	8.00	
4.3 Subsidy funds for projects (PNSV)	29.50	9.80	39.30	
4.4 Municipal strengthening	3.00	-	3.00	
5. Replenishment of PPF/007	1.50	-	1.50	2.1
Subtotal	59.40	10.50	69.90	99.2
6. Supervision and inspection	0.60	-	0.60	0.8
Grand total	60.00	11.00	71.00	100.0
Percentages	85.00	15.00	100.0	

- 2.24 Though not included in the cost table, it is estimated that there would be an additional US\$4 million, at least, in contributions from municipalities and beneficiaries for subprogram C purposes.

2. Financing plan

a. IDB financing

- 2.25 The Bank will provide US\$60 million from the Fund for Special Operations to cover approximately 85% of the total project cost. The rationale for this IDB share of the proposed financing is that the program classifies as poverty-targeted under the terms of paragraph 2.15 of the Eighth Replenishment document (AB-1704).

2.26 The loan conditions are:

Table II-2
Loan terms

Amount	US\$60 million
Amortization period	40 years
Grace period	10 years
Commitment period	4.5 years
Disbursement period	5 years
Interest rate	
Grace period	1%
Amortization period	2%
Inspection and supervision	1% of the loan
Credit fee	0.5% annually on balances

b. Local counterpart contribution

2.27 The local contribution, financed by the Bolivian government from the national budget, will be an estimated US\$11 million equivalent. The national housing subsidy program will provide US\$10 million of that sum. The 1998 budget includes sufficient funds for this year.

III. PROGRAM EXECUTION

A. Implementation strategy

- 3.1 Since the program consists of financing institutional reform and innovation, a flexible execution procedure is proposed whereby the government and the Bank will jointly review progress each year and agree on a plan of action for the following year.
- 3.2 The actions and goals thus agreed upon will be reflected in annual work plans and will be consistent with the program's general objectives and based on the lessons learned as it progresses.

B. The borrower and the executing agencies

- 3.3 The borrower will be the Republic of Bolivia, which will designate the Ministry of Housing and Basic Services (MVSb) to execute the program, coordinating it through the MVSb's Housing Policy Unit. Subprograms B and C will be executed by Nacional Financiera Boliviana (NAFIBO) and the National Fund for Regional Development (FNDR), respectively. An institutional analysis of the three entities is presented below.
- 3.4 The MVSb is a new ministry that took over the responsibilities of the former Department of Urban Development. It suffers from the weaknesses that are typical of the Bolivian public sector. Most of the ministry's employees have been appointed recently and not all are trained to carry out their duties. Administration and control systems are weak. The program intends to strengthen the MVSb, particularly its Department of Housing and Human Settlements, and promote the creation of permanent civil service jobs to provide professional continuity for activities.
- 3.5 NAFIBO is a mixed public and private corporation which has taken over the functions of the former Development Office of the Central Bank of Bolivia (BCB), which channeled external long-term resources into the private sector through the financial system. Creation of NAFIBO, which was supported under loan 939/SF-BO and other operations since 1991, responds to the strategy of withdrawing functions from the BCB that the country believes should be carried out in the market by the private sector. Since the final objective of the strategy is to privatize NAFIBO, that agency will have to obtain and transfer funds under market conditions, i.e. without requiring subsidies for its operations.
- 3.6 NAFIBO has sufficient institutional capacity to channel funds through rediscounts. In its two years of operation it has channeled an average of US\$50 million a year, consisting of own funds and funds from external sources, including the Bank. NAFIBO also has US\$600,000 for institutional strengthening from loan

939/SF-BO to help the institution develop new activities or products such as rediscounting mortgage loans. In the second aspect, NAFIBO needs to contract specialists in the national mortgage market to strengthen its financial management for mortgage analysis. It will pay for these contracts from its own funds. In addition, it will require personnel and institutions with international reputations to ensure the success of the first issue of securities, and provision has been made to contract them under the NAFIBO institutional strengthening component financed with proceeds of the proposed loan.

- 3.7 The FNDR is a financial agency that was established with Bank support to finance regional and local investment projects. It has executed or is in the process of executing three global credit programs financed by the Bank: PRODURSA I (US\$60 million, 98% disbursed) and PRODURSA II (US\$64 million, 78% disbursed) and the basic urban sanitation program (US\$70 million). The Bank's experience with the FNDR is positive. It is a technically and administratively solid executing agency, with a relatively stable technical team and a very capable financial and administrative area. It has recently established an internal auditing unit, to remedy one of its weaknesses. The Fund has entered into strict specific contracts with the operators of the services it has financed, which demand due maintenance and operation of investments and the submission of reports. These are two areas which the Bank will monitor closely during the present operation.
- 3.8 In the MVSB, the Housing Policy Unit will be responsible for overall program administration, coordination, supervision, and evaluation, including relations with the Bank. The unit will be supported by: (i) a senior consultant to assist the unit's management in the coordination of activities; and (ii) the services of experienced consulting firms for technical supervision of work in the different areas.
- 3.9 For subprograms B and C, the MVSB, in conjunction with the Ministry of Finance, will enter into agreements with NAFIBO and the FNDR, respectively. The following will be conditions precedent to the first disbursement of program funds: (i) a ministerial decree designating the Housing Policy Unit as program coordinator and evidence that the unit has the core staff necessary to carry out its tasks; (ii) signature of interagency agreements between the Ministry of Finance and the MVSB for the implementation of subprogram A and coordination of the program between the Ministry of Finance (together with the MVSB) and NAFIBO, and between the Ministry of Finance (together with the MVSB) and the FNDR for execution of subprograms B and C, respectively; and (iii) for subprogram C, establishment of an executing unit in the FNDR and entry into force of the approved Operating Regulations, model agreements between FNDR and the municipal governments, guidelines for project preparation and presentation, bid documents, and a

project control and monitoring manual, agreed upon in advance with the Bank.

C. Subprogram A. Implementation of legal and institutional reform in the sector

- 3.10 The institutions affected by the reforms - (i) the MVSB, (ii) the Real Property Rights Register, and (iii) the commission to wind down FONVIS - will implement this component under interagency agreements and terms of reference agreed upon with the Bank. A condition precedent to disbursement of subprogram A funds will be that the MVSB administrative management unit has the capacity to administer the subprogram funds. Prior to strengthening the register, it will be necessary to approve new registration regulations to ensure a reliable and efficient registration system with rapid public access, duly coordinated with the land registry. The MVSB will be responsible for strengthening entities in charge of fostering demand.
- 3.11 The MVSB will implement the components relating to the temporary landlord-tenant affairs offices, the sector studies, and the communications plan.
- 3.12 Implementation will be carried out following the operational and financial procedures established in: (i) the loan contract between the Bank and the borrower; (ii) the terms of reference; and (iii) the interagency agreements between the MVSB and the participating institutions.

D. Subprogram B. Development of the secondary credit market

- 3.13 This subprogram will be implemented by NAFIBO through its Finance Office, under an interagency agreement with the Ministry of Finance (and the MVSB). NAFIBO will establish an ad hoc team to coordinate activities. NAFIBO will be responsible for initiating the process of mortgage securitization. It will proceed in four stages:
- (i) Analysis of the intermediary credit institutions and their respective mortgage portfolios, including a prepayment risk analysis, in order to establish the conditions for rediscounting and purchasing the portfolio.
 - (ii) Establishing a business plan based on detailed studies of the relevant markets, including a definition of its positioning as an institution in the course of privatization, which in future will compete on an equal footing with private securitizers.

- (iii) Opening a long-term rediscount window for mortgage operations 11/ to permit the financial system to match maturities more closely and to incorporate rules and procedures stemming from the new manuals on portfolio origination, servicing, and evaluation.
- (iv) Purchase of mortgage loan portfolio, securitization, and sale of securities backed by the mortgages. This entails evaluation of the mortgage portfolio to be purchased and securitized, using a trust fund as the depository. NAFIBO will act as promotor of this process and, in future, will manage the trust (see Annexes I-1 and II-3 in the technical files of RE1/S01).

3.14 The following conditions must be complied with prior to initiating disbursements for mortgage and subordinated securities purchases: (a) NAFIBO must present its strategic business plan based, *inter alia*, on the findings of the feasibility study on the mortgage securitization process; (b) it must have submitted its mortgage purchase and securitization plan; and (c) prior to purchasing the portfolio, NAFIBO must have developed and introduced rules and procedures for: (i) manuals on real-estate appraisal and mortgage portfolio origination and servicing, and distribution thereof to intermediary credit institutions; (ii) purchase, packaging, and securitizing mortgages; (iii) master servicing for investors; (iv) due diligence (the process needed to ensure market acceptance of the securities) regarding registration and reporting systems, and taxes and accounting; and (v) basic requirements for creating a trust fund and rules for its management. IDB disbursements under this subcomponent will require a one-to-four ratio with financing from other sources.

3.15 Parallel to the above activities, NAFIBO will publicize and promote the subprogram with interested financial intermediaries and contract the studies and consulting services required to analyze the feasibility of floating issues of this type on international markets.

E. Subprogram C. Barrio improvement (under the national housing subsidy program)

3.16 This subprogram will be implemented by the National Fund for Regional Development (FNDR) under an agreement that agency will sign with the Ministry of Finance (and the MVSF). In general

11/ This involves easing the conditions of the funding allocation component of loan 939/SF-B0 (established in subsection 2.02 of the amending agreement of November 22, 1996) to permit proceeds to be channeled into financing for the housing sector. This would help to address the problem of maturity mismatches in financial intermediaries involved in the sector.

terms, the FNDR will be responsible for: (i) promoting the subprogram and advising municipalities regarding its requirements; (ii) selecting eligible projects through departmental competitions; (iii) evaluating the projects to be financed technically and verifying compliance with program eligibility criteria; and (iv) financing the projects (through program subsidies and credits for the local counterpart) and supporting their implementation by the municipal executing units.

- 3.17 The FNDR will establish a specific technical unit to carry out this subprogram, composed of professional staff involved in the promotion and analysis of barrio improvement projects. The subprogram will be governed by the FNDR's technical, financial, and administrative procedures, which are known to and accepted by the Bank.

1. Financial agreements between the FNDR and municipal governments

- 3.18 These agreements will establish the obligations of the parties and, in addition to the general conditions set forth in the Operating Regulations, they will include the following requisites:

- (i) Municipal governments will take steps to modernize their land registers and charge property taxes based on the new property values, reflecting the worth of the improvements made.
- (ii) Municipal governments will revise their urban legislation, particularly their urban development plans and land-use and construction standards and municipal procedures, and take concrete steps to facilitate urban growth and legalize land tenure in unauthorized settlements.
- (iii) Municipal governments will undertake to provide city sanitation services and road and drain maintenance in the beneficiary areas.

- 3.19 Although the above actions are not specific conditions for disbursements, failure to carry them out will disqualify a municipality from new financing under the program. The FNDR is required to verify that these commitments are honored and provide technical support for complying with them, informing the Bank about the situation in its annual progress reports.

2. Municipal executing units

- 3.20 The municipalities will use the civic participation units established under the Civic Participation Act as local program executing units, thereby decentralizing the program's implementation. The units will be responsible for: (i) project planning, with the participation of community organizations; (ii) providing technical assistance for weaker districts that have difficulty in preparing their project applications;

(iii) presenting the projects for departmental competition; and
(iv) supervising and implementing the program in their jurisdictions, including tendering and supervising works, and bidding out and supervising the community development component.

3. Operating Regulations

3.21 Program implementation will be governed by the Operating Regulations (Annex III-1 in the technical files of RE1/S01). The document includes a mechanism for allocating resources to the departments, rules to be followed by municipalities in selecting project areas, technical, socioeconomic, legal, and environmental eligibility criteria, the program's operating mechanism, and other relevant aspects.

3.22 The most important provisions of the Operating Regulations are presented below.

a. Allocation of funds to departments

3.23 To ensure that regions with the highest indexes of unmet basic needs will have greater opportunity to use the funds, departmental quotas will be established each year, applying the following formula to the subprogram's uncommitted funds:

$$FCD_i = \left[\frac{(\frac{PNBI_i}{PD_i}) + (\frac{PNBI_T}{PD_i})}{\sum \left[\frac{(\frac{PNBI_i}{PD_i}) + (\frac{PNBI_T}{PD_i})}{PD_i} \right]} \right]$$

Where:

FCD_i - Factor for determining the quota for department "i"
PNBI_i - Population in department "i" with unmet basic needs
PNBI_T - Total Bolivian population with unmet basic needs
PD_i - Total population in department "i"

3.24 This means that priority will be given both to departments with higher absolute numbers of people with unmet basic needs and to departments with smaller absolute numbers but with significant poor populations.

3.25 The quotas will constitute the financing ceilings for each department and will be used as the basis for departmental competitions to select projects.

3.26 In the final competition, the balances not used by the departments to which they were allocated will be reassigned to eligible projects regardless of the department, giving priority to those providing the most local support.

- 3.27 To ensure equitable distribution of the subprogram's funds, the cities of La Paz, Cochabamba, and Santa Cruz, taken together, may not receive more than 40%.

b. Departmental competitions for projects

- 3.28 Funds for barrio improvement projects will be awarded semiannually through competitions in each department. Projects that comply with the eligibility criteria and procedures established in the Operating Regulations will be selected. If funds are not sufficient to cover the demand for projects, priority will be given to applications that offer the highest percentage of counterpart funding provided by municipalities or other sources and labor, materials, and other contributions mobilized by the communities.

c. Eligibility criteria

- 3.29 The Operating Regulations define the requisites for access to program funds by investment projects. Table III-1 presents the main legal, environmental, technical, economic, and social criteria to be met in the barrio identification and project eligibility stages.

Table III-1
Eligibility criteria

Social	
<ul style="list-style-type: none"> - Targeted to the poor (monthly family income up to three basic wages). - Over 75% of housing without basic sanitary sewer facilities. 	<ul style="list-style-type: none"> - Over 75% of barrio lots occupied by housing
Technical and economic	
<ul style="list-style-type: none"> - Close to potable water and sewerage systems, power lines and roads, or individual water and sewerage solutions are possible within the investment limits per lot. - Minimum size of the barrio, 100 lots. - Costs per beneficiary lot may not be over US\$2,800. - Total cost per barrio may not be over US\$1.6 million. 	<ul style="list-style-type: none"> - Comply with the design criteria of the guidelines for project preparation under the subprogram and the other national technical standards and regulations for the pertinent sectors. - Scaling of the components in function of real demand, corresponding to minimum-cost solutions based on an analysis of alternatives. - Commitment by the operators of public utilities to operate and maintain works and services.
Environmental	
<ul style="list-style-type: none"> - Not in areas where natural risks are present (landslides, flooding, etc.) or, if such risks exist, correction measures included in the project, within the spending limits per lot. - No land-use incompatibilities (cultural, tourism, archeological, ecological reserve, preservation of natural landscape). 	<ul style="list-style-type: none"> - If relocation of families is required, a resettlement plan that conforms to Bank policy must be included. - Comply with the regulations on the prevention and control of environment impact (Law 1333 on the Environment) and the environmental protection criteria and measures contained in the EIA for the subprogram
Legal	
<ul style="list-style-type: none"> - Existence of legally established community organizations recognized by the municipal government. - Must not be owned, under litigation, or public property (or, before the investment is made, it must be feasible to resolve the land tenure question). 	<ul style="list-style-type: none"> - Subdivision plan completed and approved prior to project approval.

4. Project cycle

a. Promotion

- 3.30 The FNDR will promote the subprogram in cooperation with the Ministry of Housing and Basic Services and the departmental governments. The FNDR is designing guidelines for project preparation and presentation (profiles, preliminary designs, and final designs), bid documents, and manual and guide for project control and monitoring, which will form an integral part of the Operating Regulations.

b. Municipal selection of poor districts for improvement

- 3.31 The sequence to be followed in selecting barrios is: (i) the municipal governments through their executing units will promote the program among the community organizations in barrios that are initially considered eligible, attempting to involve NGOs that provide in community support; (ii) the community organizations in conjunction with the executing units and other organizations, where possible, will draw up barrio identification profiles; the profiles should demonstrate compliance with the basic preselection requirements; (iii) based on the profiles presented, social priorities, and the possibility of complying with the subprogram's eligibility requirements, the municipal government will select priority barrios to be presented for financing.

c. Preliminary designs

- 3.32 The municipal executing units and/or local NGOs will prepare preliminary designs for the preselected barrios. They will receive support and technical and financial advice from the municipal governments and the FNDR. The preliminary designs will be ranked in order of priority by the town councils, which will undertake to commit counterpart funds.

d. Departmental competitions and project approval

- 3.33 The process to be followed in project selection is: (i) each year the FNDR will calculate the funds available for each department (based on the formula mentioned above); (ii) semiannually, the municipal governments in each department will be invited to present projects for financing to departmental competitions; (iii) based on the preliminary barrio improvement plans presented and the funds available, the FNDR will preselect projects from among those complying with the eligibility criteria, giving priority to those with the largest local counterpart share; and (iv) final designs will be prepared for the preselected projects, their eligibility will be reconfirmed, and they will be approved by the FNDR's project and loan committees.

e. Project execution

- 3.34 For project execution: (i) the FNDR will sign financing agreements with the selected municipalities to carry out the projects and, if the municipal government requests, will make a loan to finance the local contribution; (ii) the municipal governments will proceed with the final designs of approved projects, using their own resources or program financing, and the designs will be reviewed by the FNDR; (iii) the municipal governments will be responsible for tendering works and community development activities, and the FNDR will normally be responsible for paying contractors, suppliers, and consultants; (iv) execution of the physical works will be closely coordinated with community development, environmental and sanitary

education, and titling activities, so that they will all be completed within the term for executing each project; and (v) on the conclusion of each project, a subsidy certificate will be given to each beneficiary family, showing the amount provided by the program on its behalf.

f. Supervision and inspection

- 3.35 Project execution will be supervised by professionals hired by the municipal governments with funds from the subprogram. Apart from giving their technical approval of the pertinent designs, operators of water, sewerage, and electricity services will be asked to designate a supervisor to monitor execution of the works.

g. Operation and maintenance

- 3.36 The operation and maintenance of the public utilities financed by the subprogram which are subject to tariffs or other direct user charges will be the responsibility of the companies holding concessions for the services (cooperatives, public, mixed or private companies, or autonomous municipal utilities). The municipal governments will be responsible for maintaining works not subject to direct charges (drains and city streets).
- 3.37 Community organizations will be responsible for operating and maintaining communal works in their barrios. The organizations will sign contracts to administer the works with the municipal government, setting out their obligations.

F. Procurement of goods and services

1. Goods

- 3.38 In accordance with Bank policy, international competitive bidding will be used when the foreign-currency proceeds of the loan are used for contracts for works worth more than US\$2 million equivalent, and for equipment and goods over US\$250,000 equivalent. Goods and works below these thresholds will be procured, in principle, in accordance with Bolivian legislation. In such cases, when IDB loan proceeds in foreign exchange are used no restrictions may be placed on participation by bidders from the Bank's member countries.
- 3.39 Annex III-2 gives the program's procurement plan.

2. Consulting services

- 3.40 Consulting services will be selected and contracted following the Bank rules annexed to the loan contract. International competitive bidding will be required for amounts over US\$200,000 equivalent.

3. Limits for ex post review

- 3.41 Given the number of contracts expected, to streamline program execution and facilitate the Country Office's supervisory activities, at its discretion the Country Office may agree with the executing agency to perform ex post reviews of samples of contracts under US\$500,000 for works, US\$50,000 for equipment and goods, US\$50,000 for consulting firms, and US\$25,000 for individual consultants.

G. Disbursements

- 3.42 NAFIBO (executing agency for subprogram B) and the FNDR (executing agency for subprogram C) have the institutional capacity for adequate financial and accounting management of their respective components. However, the Housing Policy Unit of the MVSB, which will be responsible for financial and accounting control of the program as a whole, will require a learning period to assimilate the systems. In view of the capacity of the FNDR and NAFIBO, the volume of transactions for procurements of goods and services, and the nature of the program, after the Housing Policy Unit has completed a learning period whose duration will be determined by the Country Office, disbursement documents will be subject to ex post reviews.

H. Revolving fund

- 3.43 Owing to the nature of the program and the diversity of the activities to be financed, it is recommended that a revolving fund equivalent to 5% of the prospective loan be established.

I. Recognition of prior expenditures

- 3.44 The executing agency estimates that the country may have incurred the following expenses up to the date of the analysis mission: (i) against Bank financing, up to a total of US\$20,000 for the preinvestment costs of barrio improvement projects; and (ii) against the local counterpart, up to a total of US\$10,000 for the same purpose. Between the date of the mission and approval of the loan, the executing agency estimates that the country will have spent: (i) against Bank financing, up to a total of US\$250,000, including US\$150,000 in preinvestment costs for improvement projects and US\$100,000 for consulting services to support FONVIS; and (ii) against the local counterpart, up to a total of US\$50,000 for preinvestment costs for barrio improvement projects.

J. Program monitoring

1. Annual progress reports

- 3.45 The borrower, through the executing agency, will present a progress report on the program to the Bank in the first four months of each year, describing the past year's actions and activities, outputs and targets achieved, the main difficulties encountered, and proposed solutions. The funds used per component will also be indicated, analyzing actual spending compared with planned spending. The format of the report will be agreed upon in advance with the Country Office.

2. Annual reviews and work plans

- 3.46 Based on the annual progress reports, the executing agency and the Bank will review the program in the first third of each year. The reviews will serve to establish the work plan for the year, adjusting activities and targets. Both the annual reviews and the work plans will use, as benchmarks, compliance with the commitments and targets established in the logical framework (see Annex III-3).

K. Inspection and supervision

- 3.47 The Bank will perform inspection and supervision during the program through the Country Office, with support from the project team. Special attention will be paid to compliance with the conditions precedent to the first disbursement, the start-up period, selection of the staff of the Housing Policy Unit, headway in the reforms, and progress reports.

L. Auditing

- 3.48 Throughout the life of the program, the financial statements of the program and of NAFIBO are to be presented annually within the first four months after the end of each fiscal year, audited by independent external auditors. The cost of program audits has been included in the financing.

M. Final evaluation

- 3.49 During the final year of the program, its impact will be evaluated using a methodology agreed upon with the Bank, based on the monitoring studies, the logical framework, the new system of benchmarks, and other instruments. The study will be financed with program funds. The information compiled during the program and the data from the new benchmarking system will permit an ex post evaluation to be performed.

IV. FEASIBILITY AND RISKS

A. Political feasibility

- 4.1 The reform of the housing sector implicit in the housing policy has been the subject of broad public debate in recent years. A social consensus took shape during 1996-1997 regarding the need to act in the sector. Representatives of government, business, and civil society were able to reach an agreement on the basics. ^{12/} Moreover, the Central Obrera Boliviana, whose members should have been the main beneficiaries of the National Low-Cost Housing Fund (FONVIS), were already calling for the reform or closure of that institution in 1996.
- 4.2 As explained in chapter II, the government has carefully studied the legislation needed to implement the new housing policy, which has been provided for in the program. The government believes it has the necessary support for rapid passage of that legislation. Supreme Decree 24935, published in January 1998, created the national housing subsidy program and closed FONVIS, which is the first step in the reform.
- 4.3 Since the reform, as proposed by the government, meets the latent demand of different segments of the population and is the result of a social consensus, the proposed program is considered feasible from the political standpoint.

B. Economic feasibility

- 4.4 The new housing policy has been designed to bring about the legal and institutional changes necessary to reduce production and transaction costs on the real estate market and to provide long-term financing for housing buyers. The initiatives to rewrite urban development rules will provide the municipalities with stronger powers to address their problems with expansion and the availability of land for building. Planning and construction standards will be geared to facilitating lower cost formal solutions. The changes to be introduced in the participating municipalities with respect to simplifying formalities and making permits easier to obtain will reduce the time required (and therefore the financial cost of the works). Changes relating to condominium ownership and leasing are intended to provide alternative housing solutions.
- 4.5 With the legislative initiative on rentals, which will introduce duration terms for contracts and remove implicit rent controls, landlords will have greater security, thus stimulating formal

^{12/} See "Lineamientos para una política de vivienda", July 1997, MDH.

development of this market, which could help significantly to solve the housing problems of low-income groups.

- 4.6 Introduction of the new housing finance system, which will create a secondary mortgage market and promote mechanisms to extend credit to low-income groups, will result in a more efficient credit market. This market, in turn, will make for huge gains in economic efficiency. At present, people take years to build on vacant city lots or to complete buildings under construction (which may be unoccupied or only partly occupied) because they cannot find financing. With financing available at reasonable costs, investments will speed up and buildings will be readied for immediate occupancy.

C. Institutional and financial feasibility

- 4.7 From the macroeconomic, legislative, institutional, and regulatory standpoints, this is a very good time to deepen the housing system and instruments for home financing. A lengthy period of macroeconomic stability means that inflation and interest rates are favorable for the development of medium- and long-term financial instruments. Having surmounted the 1995 crisis, the traditional financial system, which should be the main primary provider of mortgages, has the necessary solidity to expand its activities in this area. The reform of the pension system and the recently-created private pension funds, which will channel a growing share of long-term domestic savings, and the new functions of Nacional Financiera Boliviana (NAFIBO) will reduce liquidity risks, maturity mismatches, and segmentation of the capital market, which are generally impediments to expansion of the financing system for housing. The program also includes actions to reduce the cost of originating, registering, and foreclosing on mortgages, which make the existence of a mortgage system viable.
- 4.8 On the demand side of housing loans for the lowest income groups, development of a financial system specializing in small loans and microcredit, and training for the organizers of demand by those groups (such as the successful experience of PROA) will allow a large segment of the low-income population to gradually gain access to credit and hence to housing ownership and improvements.

D. Feasibility of the barrio improvement subprogram

- 4.9 The proposed investments take a comprehensive approach to the problems of families living in substandard dwellings, by regularizing land tenure and providing water and sewage disposal systems, drainage, and environmental protection. The program also promotes land-use planning in these settlements to eliminate the problems of overcrowding in some of them.
- 4.10 As part of the feasibility study of this operation, a sample of 16 projects worth US\$23.2 million was examined, which are representative of three typical Bolivian regions (high plateau,

valley, and east). Preparation and evaluation of the sample served to gain a clearer idea of the types of investment envisaged, problems and solutions, and costs and cost structure. The parameters for maximum project costs were determined from the latter (see the Operating Regulations).

1. Analysis of the sample

- 4.11 An analysis of the 16 projects in the sample showed that 10 of them, costing US\$9 million, complied with the eligibility criteria at the preliminary design level. In carrying out the remainder of the program, the Operating Regulations and guidelines for project preparation will help to ensure that the other projects comply with the eligibility criteria. The salient features of the sample are described below.

a. Social aspects

- 4.12 A social diagnosis was prepared for each of the projects which, combined with the census conducted in each locality and the results of the social outreach work, allowed for a detailed socioeconomic profile of the communities in the sample. In terms of social organization, they all have a formal structure recognized by their municipality, which served as a valid community interlocutor. The degree of community development and awareness was determined for each project. Although it varies, it was determined that an average of 12 months' work would be required to mobilize the different communities.
- 4.13 The communities in the sample were interested in forming part of the process and expressing their opinions. They had the capacity to shoulder responsibilities and speak up for their rights during the project identification and initial development process. This work with prospective beneficiaries made it possible to develop suitable technical and urban planning designs with community consensus and to determine the role to be played by the community and the level of interaction with it during the project cycle. It also made it possible to verify in practice that effective community participation from the outset facilitates achievement of the goals and assures the sustainability of investments financed under the program.
- 4.14 The sample was fully consistent with the social eligibility criteria, including: (i) population in need of basic sanitation facilities (in this case associated with substandard housing and no access to basic utilities); (ii) targeted to marginal, low-income districts; (iii) lack of a similar housing program; and (iv) a legally-established community organization.

b. Legal and environmental aspects

- 4.15 All the projects in the sample comply with the legal requirements, having to do with ownership of the land occupied by the

communities, city planning approvals, and regularization of land titling. They also meet the environmental criteria, since they are located in areas not prone to landslides or flooding (or plans exist to build the necessary protection), do not make environmentally incompatible use of land, and have environmental studies and briefs available.

c. Technical and economic aspects

- 4.16 The projects are generally well designed, comply with national legal and technical requirements, and are based on adequate parameters and minimum standards to guarantee human safety and the stability and functionality of the works. The designs are least-cost solutions to the problems of the beneficiary communities. The estimated investment costs are reasonable, based on recent experience with similar works, and are geared to the real situation in the different parts of the country.
- 4.17 The economic analysis focused on verifying: (i) compliance with cost-efficiency criteria; (ii) the rise in the value of land with the barrio improvements (economic returns on the investment); (iii) adequate targeting of low-income groups; and (iv) sustainability of the investments.
- 4.18 As for cost efficiency, the analysis of the sample shows that most of the projects present costs below the established ceilings of US\$2,800 total per lot, US\$1,500 for the sanitation module (potable water, sewerage and sanitary core), and US\$1,300 for roads, steps and drainage. ^{13/} The limits make it possible to use simple eligibility parameters to ensure that the program reaches as many beneficiaries as possible.
- 4.19 The economic evaluation of the sample verified that the land on which the investments would be made would increase in value significantly thanks to the project. In each of the 10 projects, the increase was close to or higher than the cost of the investments which, keeping in mind the significant externalities that improvements bring, ensures that in general the investments are economically viable.
- 4.20 Subprograms A and B, which provide for fundamental changes in policy, will increase access to housing for the middle-income and

^{13/} The ceilings were established by reference to the average cost of the projects in the sample plus a standard deviation for the total cost, the sanitary module, and the roads and drainage component. For the flatlands region, the cost parameter was adjusted for regional variations in construction costs, based on FNDR estimates. Since it was assured during preparation of the sample that intervention costs had been minimized, the proposed ceilings are reasonable for ensuring efficient use of the funds.

low-income classes. With respect to the focus of the direct investments to be made under the program, to be eligible, subprojects must be targeted to low-income settlements and demonstrate that at least 75% of the population lacks basic sanitation. Accordingly, the program can be classified as poverty-targeted for purposes of paragraph 2.15 of document AB-1704 on the Eighth Replenishment of Resources. With respect to paragraph 2.13 of the same document, this project can be classified as promoting social equity, since it addresses the housing problems encountered by low-income groups.

- 4.21 Impact on family income was considered when analyzing project sustainability. Just 20% of the families would have to spend more than 20% of their declared income to pay for the minimum charges associated with improved lots, property taxes, municipal taxes, and tariffs for water, sewerage, and electricity service.

E. Gender considerations

- 4.22 Bolivian women play an important part in the country's economic life, as producers, vendors, and consumers. There are no legal restrictions on women's ownership, contracting, or the type of economic activity in which they can engage. As users of microcredit, Bolivian women constitute at least 40% of the clientele of the Private Financing Funds. The houses of low-income families are frequently registered in the woman's name, making her eligible for secured loans. This has been the experience of NGOs that have successfully obtained loans for families in El Alto. Therefore, expansion of the credit market will benefit both sexes equally.
- 4.23 Women also participate actively in community organizations, and as a result the barrio improvement projects presented will adequately reflect the preferences of both men and women. The property titles issued as a consequence of the improvement projects will always be in the names of both spouses.

F. Program risks

1. Implementation of the reform in the housing sector

- 4.24 Delays in the passage of the different pieces of legislation could have a substantial impact on development of the real estate and financial markets. To mitigate this risk, the legislative actions have been programmed early in the operation, taking advantage of the favorable political climate for the changes proposed by the government.

2. Implementation of securitization

- 4.25 Although the securitization plan proposed is simple and has proven to be viable in other countries, Bolivia still needs to develop the conditions and institutions to establish an efficient market for

mortgage-backed securities. To mitigate this institutional risk: (i) NAFIBO, which is responsible for securitization, will be supported by an internationally known investment bank and rating agency in carrying out this task; and (ii) to create an enabling environment for the new market, the program supports legislation that will promote securitization institutions and legislation for their supervision.

3. Barrio improvement projects

4.26 Since some municipalities lack experience in identifying, designing, and implementing projects of this kind, decentralized execution of this subprogram entails the risk that the eligibility criteria will not be applied uniformly. To mitigate it, the National Fund for Regional Development (FNDR) will closely supervise the process of project identification and design.

4.27 The operation and maintenance of the projects financed by the program may not be performed following acceptable practices or standards. To mitigate this risk, the municipal executing units will sign agreements to transfer the works to operators, establishing their commitment to maintain them up to acceptable standards. Maintenance of investments for which communities are responsible will be assured by establishing community organizations (or strengthening existing organizations) to take charge.

G. Environmental and social impact statement

4.28 The program will mainly have a positive environmental and social impact. The new rules for urban development and the municipal regulations designed under the program will include environmental impact considerations to ensure that urban development respects the environment and minimizes the risks for human settlements.

4.29 The direct investments to be financed by the program (subprogram C for barrio improvement) will also have a positive impact by bringing basic utility services into these areas. Notwithstanding, the executing agency of this subprogram (the FNDR), in compliance with the country's legislation, prepared a strategic environmental impact assessment in accordance with the Environmental Protection and Control Regulations. The study identified potential negative impacts during construction of operation of the works and measures to prevent, control, mitigate and monitor them.

4.30 The environmental eligibility criteria included in the Operating Regulations of the barrio improvement subprogram include the environmental protection conditions contained in the environment and social impact report and stipulate that the recommendations contained in the strategic environmental impact assessment must be complied with.

HOUSING POLICY SUPPORT PROGRAM (PROVIVIENDA)
BO-0008
PROCUREMENT PLAN

Main procurements	Financing		Bid method	Date planned	Total US\$ thousands
	IDB %	Local %			
1. Physical infrastructure. Construction contracts for urban infrastructure (potable water, sewerage, sanitary modules, city streets, community centers, forestation and environmental protection)	75 %	25 %	LB/ICB		
1.1 Eight (8) contracts	75 %	25 %	LB	2nd half 1998	6,000
1.2 Five (5) contracts	75 %	25 %	LB	1st half 1999	3,800
1.3 Five (5) contracts	75 %	25 %	LB	2nd half 1999	3,800
1.4 Thirty-two (32) contracts	75 %	25 %	LB/ICB	2000-2002	23,000
2. Services and consultancies (preinvestment, community development, and titling)	70 %	30 %	LB/ICB		
2.1 Six (6) contracts	85 %	15 %	ICB	2nd half 1998	1,000
2.2 Six (6) contracts	85 %	15 %	ICB	1st half 1999	1,000
2.3 Six (6) contracts	85 %	15 %	ICB	2nd half 1999	1,000
2.4 Eighteen (18) contracts	85 %	15 %	ICB	2000-2002	4,500
3. Other consulting services	85 %	15 %	LB/ICB	1998-2002	4,500

ICB: international competitive bidding

LB: local bidding

Logical Framework
HOUSING POLICY SUPPORT PROGRAM (PROVIVIENDA)
BO-0008

Objectives	Verifiable indicators	Means of verification	Assumptions
Standard of living of particularly the lowest-income	By the end of the program: 1.1 Reduction in the frequency of water-borne and gastrointestinal diseases and Chagas' disease 1.2 Reduction in overcrowding	1. National censuses, household surveys 2. Health statistics	
Housing situation of s, particularly the lowest- on	By the end of the program: 1.1 Significant reduction in unmet basic needs 1.2 Significant increase in the production of formal housing 1.3 Improvement in housing quality for the two lowest income quintiles 1.4 Increase in the number of loans granted annually to buy or build housing 1.5 Relative reduction in mortgage interest rates 1.6 Increase in the average term of mortgage loans	1. National censuses, household surveys 2. Construction statistics 3. BCB statistics 4. SISAP system 5. Supervisory report of the Housing Policy Unit 6. MVSB information systems	Continuity of social a policies to raise the s living of the low-inc population Employment rate ren or improves Sector reform policy Political and public s reform is maintained Associations and unio oppose the reform Economic growth cor

Objectives	Verifiable indicators							Means of verification	Assumptions
		1998	1999	2000	2001	2002	2003		
on of policy reform in or	1.1 Legal framework for urban development improved		■					1. Housing Policy Unit supervision reports	Congress passes pertinent legislation
	1.2 New landlord-tenant act passed		■					2. Housing Policy Unit follow-up studies	
	1.3 New property registration act passed			■					
	1.4 New law on real property guarantees and evictions passed		■						
	1.5 FONVIS 100% liquidated			■					
	1.6 Sector monitoring system in operation			■					
	1.7 Reformed and strengthened registries				■				
	1.8 At least 10 NGOs working with low-income groups to organize the demand for credit		■						
	1.9 Temporary landlord-tenant affairs offices in operation		■						

Objectives	Verifiable indicators							Means of verification	Assumptions
	1998 1999 2000 2001 2002 2003								
e creation of a secondary mortgage-backed	1.1 Mortgage-backed portfolio placed pursuant to NAFIBO rules (US\$ millions)	-	10	10	-	-		1. NAFIBO report 2. NAFIBO report and records of the Office of the Superintendent of Securities 3. Supervision reports, Housing Policy Unit	Laws and regulations NAFIBO to operate securitization agency Macroeconomic and market conditions p securities
	1.2 Mortgages, securities purchased (US\$ millions)	-	-	50	-	-			
	1.3 Issue of primary securities sold to investors (US\$ millions)	-	-	40	-	-			
	1.4 Manuals on real-estate appraisal and origination and service of the mortgage portfolio prepared		■						

Objectives	Verifiable indicators							Means of verification	Assumptions
		1998	1999	2000	2001	2002	2003		
Housing solutions for 10 families	1.1 Number of municipalities participating in the program (cumulative)	5	15	25	35	35	35	1. Housing Policy Unit supervisory reports 2. MVSB information system 3. FNDR reports 4. Monitoring studies	
	1.2 Number of barrios improved	-	8	18	33	43	53		
	1.3 Number of families with improved infrastructure and property titles (thousands)	-	3	7	14	19	23		
Municipalities reform their urban development regulations	2.1 Number of municipalities that have introduced significant changes in their regulations to reduce development and construction costs for low-cost housing	-	-	5	10	15	18		
	2.2 Number of municipalities that have enacted special legislation to incorporate existing settlements	-	2	5	10	20	20		
	2.3 Number of municipalities that have adopted simplified procedures for issuing municipal permits	-	2	5	10	15	18		

Objectives	Verifiable indicators	Means of verification	Assumptions
<p>Objectives of the reform</p> <p>agreements, preparation of reference, consulting work supervision, approval studies, methodologies, guidelines, training, etc.), of results. Studies. tions plan.</p> <p>market</p> <p>the existing mortgage opening of a long-term window, contracting an bank to advise on the portfolio and n, purchase of mortgage securitization, and sale of</p> <p>Improvement (national subsidy program)</p> <p>technical assistance for preparation, departmental s, verification of project approval, signature tion agreements with governments, supervision nce of the works, issue of tificates, and evaluation</p>	<p>Funds:</p> <p>US\$71 million</p> <p>Supplementary contributions by communities, municipalities and other sources</p>	<p>1. Housing Policy Unit supervision reports</p>	<p>Sector policy is main</p>

PROPOSED RESOLUTION

**BOLIVIA. LOAN /SF-BO TO THE REPUBLICA DE BOLIVIA
HOUSING POLICY SUPPORT PROGRAM (PROVIVIENDA)**

The Board of Executive Directors

Resolves:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the República de Bolivia, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a Housing Policy Support Program. Such financing shall be for the amount of up to US\$60,000.000, or its equivalent in other currencies, except that of Bolivia, which are part of the Fund for Special Operations resources of the Bank, and will be subject to the "Special Contractual Conditions" and the "Terms and Financial Conditions" of the Executive Summary of the Loan Proposal.