



Bolivia

December 2019

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The MIMOSA score for Bolivia remains stable at 5. As indicated in our 2015 report; such a level of penetration is both not surprising and also manageable given the maturity of the microfinance sector and the sophistication of the financial institutions, supervision system, client protection regulation and credit bureau. The sector was actually mature enough to absorb the introduction of minimum credit quotas and interest rate caps for the social housing and productive sector in 2014 without too dramatic consequences. The introduction of this law, without sufficient concertation with financial institutions, however left its trace in the lending patterns and creates risks for financial inclusion.

After decades of dynamic growth, the number of retail borrowers in Bolivia only increased by 160,000 individuals since 2014 resulting in a quasi-flat credit penetration in percentage of adults (20.3% in 2014 and 20.8% in 2018). With a credit market capacity that increased by 1.5% over the same period thanks to a significant improvement in the credit bureau score and to a lesser extent to the improvement of the HDI, the loan penetration over capacity actually decreased, even if not sufficiently to reduce the MIMOSA score that remains stable at 5.

The regulation is very comprehensive, notably in the area of client protection, and most credit providers are now supervised by ASFI with most cooperatives and IFD¹ having completed their licensing process in the past few years. The financial sector in Bolivia also enjoys a high level of transparency, with all financial institutions being rated on their credit worthiness by two agencies. This process is complemented since 2014 by a survey of consumers on the quality of the financial services conducted by ASFI. The 2018 edition gathered the views of more than 6,000 financial consumers spread across close to 500 service points around the country. Interest rates are communicated transparently to clients and loans in foreign currency are very seldom (5% for IFD and less for other type of financial institutions). The existence of credit quotas and interest rate caps and their potential

Category	Rating	Indicator	Value
Saturation (overall)	5	Loan penetration over capacity	8.1
Regulation for microfinance	●	Overall quality of regulation	57
	●	Client protection (prevention of over-indebtedness)	100
	●	Client protection (transparency, sales, collections, consumer rights framework)	100
Microfinance Competition / Overheating	●	Level of competition (HHI)	1'357 / 845
	●	% Borrowers with 3+ loans	6.1%
	●	Loan portfolio CAGR in value past 3 years vs. GDP growth	16% vs. 8%
	●	Loan portfolio growth in value expected next 12 months vs. forecasted GDP growth	10% vs. 7.7%
Maturity of microfinance institutions*	●	% clients at MFIs <10y or >20y old	90% > 20y
	●/●	Experienced crisis in past 15 years	1999 - 2001
Transparency	●	Composite transparency score	4
	●	% leading MFIs with ratings in past 2 years	100%
Other risks	●	FX exposure	2% (ASFI)

¹ Instituciones Financieras de Desarrollo

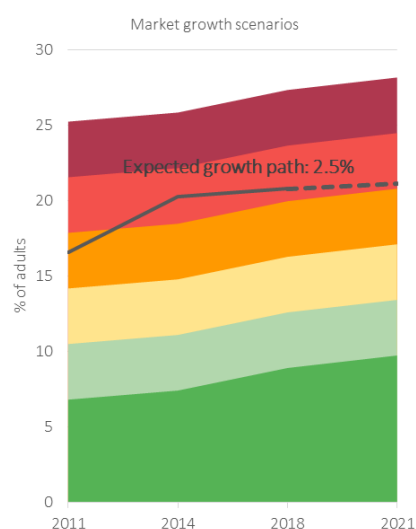
negative consequences on underwriting practices, among other factors², however led to the mixed score on regulation provided by Microscope.

The microfinance market is very mature: the 16 members of the two historical microfinance associations (ASOFIN and FINRURAL) are all more than 20 years old. Along the years, microcredit however became a product like any other for financial institutions in Bolivia and historical microfinance players only represent slightly more than 50% of the microcredit market: microcredits are indeed offered by almost all of the 61 institutions that report to ASFI. 40 institutions actually have more than 20% of their portfolio in microcredit. Banks such as Banco Fasil, Banco Mercantil Santa Cruz, Banco Union, Banco Economico, Banco de Credito are found in the top 10 providers of microcredit in value and are often cited in our survey of potential microcredit borrowers. Despite the comprehensive client protection regulation that applies to all players, this creates a highly competitive microfinance market with an HHI standing at 1'357 when only counting historical microfinance players or at an even more competitive 845 when counting all players.

This high competition translated in a solid but not reckless growth of the loan portfolio in the past few years (16% p.a.) especially given the dynamic GDP growth (7% p.a.). However, the credit quotas and interest rate cap disincentivized the expansion in terms of number of borrowers and the growth was largely linked to an increase in average credit exposure per borrower which went from 8,500 USD in 2014 to 13,000 USD in 2018³. The average credit exposure per borrower now stands 3.5x GDP per capita (vs. 2.7x in 2014) a level rarely seen in microfinance markets.

In its last Article IV report (Dec. 2018), the IMF forecasts a 10-11% growth of the private sector credit for the coming years, a deceleration from the previous years which mirrors a deceleration of GDP growth (to 6% p.a. in the coming three years). If the number of borrowers continues to increase by 2% to 2.5% p.a. as in previous years, and thus stays in line with adult population growth, this would imply an increase of the average loan size of 7-8%, more or less in sync with GDP per capita (5%). With these forecasts, the MIMOSA score is likely to remain at 5 or even decrease to 4 in the coming years as shown in the graph below.

	2011	2014	2018	2021* ⁴
HDI	0.655	0.671	0.692	0.717
Population density per km ²	9.7	9.7	10.3	10.7
Credit Bureau Score	87.6	98.0	126.6	151.4
Borrowers capacity	10.5	11.1	12.6	13.4
Borrowers per adult	16.6	20.3	20.8	21.1
Microfinance loans per adult	16.7	20.8	19.7	19.7
MIMOSA Score	4	5	5	5
GDP per capita (current \$)	2,395	3,097	3,566	4,090
GDP, 3yr CAGR (current LCU)	10.2%	11.1%	6.9%	6.2%



² Insufficient infrastructure and framework to embrace digital solutions, insufficient attention to the inclusion of women.

³ Amounts in Bolivianos converted in USD at the rate of Dec. 2018 for both dates.

⁴ Forecasts: IMF for GDP and population, MIMOSA for others

MIMOSA Scores per region

The credit penetration is quite evenly distributed across the country, with most regions receiving a score of 5, or a pretty low 6 (La Paz and Tarija).

A notable exception is the region of Santa Cruz which is home to close to 30% of the population and also represents 30% of the country GDP. Santa Cruz receives a MIMOSA score of 4 indicating some potential to grow given the level of sophistication of the regulation and a market infrastructure that allows market players to access all the necessary information to avoid excessive risk taking.

The regions of Potosí and Pando, the poorest in the country, are other outliers. They receive a 3 and a low 4 respectively. Their lower credit penetration is linked to a much lower number of services points per inhabitants than the rest of the country: less than 70% of the population of these two regions have a financial service point in their municipality compared to a national average of 91%.

The number of borrowers with 3+ loans varies between 3.5% and 6.7% depending on the regions, with the highest levels reached in the regions where credit penetration is higher.

These regional scores have been very stable since 2014.

Region	Population (000s)	HDI	Population density (per km2)	MIMOSA Score	Borrowing capacity (%)	Borrowers per adult (%)	Penetration over capacity
National (local data)	11,307	0.692	10	5	12.6	20.8	8.1
Santa Cruz	3,225	0.713	9	4	12.9	18.5	5.6
La Paz	2,883	0.694	22	6	12.7	24.2	11.5
Cochabamba	1,972	0.678	35	5	13.0	21.7	8.7
Potosí	887	0.646	8	3	12.0	13.2	1.3
Chuquisaca	626	0.671	12	5	12.3	20.6	8.3
Tarija	563	0.704	15	6	12.8	24.7	11.9
Oruro	538	0.688	10	5	12.6	20.2	7.6
Beni	468	0.683	2	5	12.5	21.7	9.2
Pando	144	0.666	2	4	12.2	16.4	4.1

Special discussion:

The “Ley de Servicios Financieros” enacted in 2013 gradually came into force since 2014 and has brought two major changes: financial institutions now have to dedicate 60% of their portfolio to loans for productive activities or housing loans of “social value” (later “social housing loans”) and the interest rates on these loans have been capped: at 6% for loans to medium or large enterprises, 7% for small enterprises; 11.5% for microenterprises; and between 5.5% and 6.5% for social housing loans. These measures have been effectively implemented. As of end of Dec. 2018, loans to the productive sector represented 44% (vs. 27% in 2013) and the social housing loans that were created in 2014 now represent 13% of the portfolio.

The impact of the interest rate caps on the (already thin) profitability of the banks or IFDs has been relatively limited (the average ROA for banks went from 0.95% in 2013 to 0.8% in 2018 and also barely moved for IFDs around 1.5%) but the institutions however did adjust their interest rates to comply with the regulation: this led to decreases on interest rates on MSME loans by 2-3% that were partly compensated by increases of rates on consumer loans and “non-social” housing loans (by 1 to 2 points on average). The rest of the equation was balanced out by efficiency gains coming from a large increase in average loan size and average credit exposure per borrower.

As mentioned earlier in the report, the average exposure per borrower increased significantly over the period. There was a drastic reduction in the number of loans below 1’500 USD that went from 44% of the number of loans in 2014 to 23% in 2018 and increase of loans above 15,000 USD that went from 7% to 12% of the number of loans during the same period. The changes in loan portfolio value are even starker with loans below 1,500 USD now representing less than 2% of the portfolio and those above 15,000 USD representing 60%.

It is to be noted that this increase in loan amounts have happened in a context of dynamic growth, improvement of HDI indicators, and overall increases in salary levels, notably influenced by centralized wage setting and indexing national bonuses to the GDP growth rate.

As a response to the interest rate caps and quotas, Bolivian financial institutions also made efforts to consolidate the loans of borrowers that had exposures with several institutions which led to a small reduction in the % of borrowers with 3+ loans (from 7.5% to 6%) and an increase of the borrowers with only one exposure (from 72% to 75%). In our survey of the microfinance target clientele, 44% of the respondents indicated that they had received an offer to consolidate their debt.

All the actions detailed above are rational ways for the financial institutions to deal with the new constraints and ones that are less drastic than could have been feared. They actually are one more demonstration of the maturity of the sector. In our survey of potential microcredit clients however a significant percentage of the borrowers do mention that they regularly have to make sacrifices to be able to repay their loans (36%), with the most common sacrifice being “work more than usual” (considered acceptable by most respondent). Having to ask for the help of family or friends, using savings or reducing the quality or quantity of food are the other sacrifices that are most cited, albeit with a lower occurrence. These results are here to remind us all that an intense loan offering, such as the one that exists in Bolivia, does come with potential risks for borrowers that need to be monitored carefully. Something the Bolivian sector is pretty well equipped to do.

Data Appendix

Like all MIMOSA reports, this report aggregates an array of data from multiple sources, often applying transformations and estimates to ensure consistency and comparability within this report and across the full set of MIMOSA products. This is a brief summary of the data included in this report. Unless otherwise stated, all data is as of end of year/September 2018.

Credit penetration

Penetration data was obtained from Infocred BI S.A.. We asked for data on the number of natural persons that have an active credit exposure, broken down by department and by the number of financial institutions they borrow from. The financial institutions included in the dataset are all regulated FIs (Banks, Instituciones Financieras de Desarrollo, Cooperatives, etc.) that report to the credit bureau. We excluded the credit card balances and written off loans from the credit exposures that make someone a “borrower”.

Capacity

The HDI for each department was derived from data by department published by the Instituto Nacional de Estadística for the following datapoints: adult population, GDP per capita (converted to 2011 PPP \$), life expectancy at birth, mean years of schooling for age 25+. We used the expected years of schooling published by UNDP in the HDR report for all departments.

Other indicators

Economist Intelligence Unit Microscope 2018: for ratings of regulation quality (see User Guide for details)

IMF World Economic Outlook October 2019: for per capita GDP and economic growth forecasts

ASFI, December 2018: for performance indicators of regulated financial institutions and financial services surveys

Project-generated indicators

Field survey of 160 potential microfinance clients, implemented by Datum (Peru) in partnership with Captura Consulting (Bolivia) in the departments of Santa Cruz (Santa Cruz, Warnes, Montero) and La Paz (La Paz, El Alto, Viacha)