

Bolivia



For 2008, the total size of the leasing industry in Bolivia can be estimated at around US\$19.7m.

MARKET REVIEW

By the end of 2008, Bolivia had 9.8 million inhabitants, the majority being indigenous and more than 85% younger than 50 years old, growing at a pace of 2.0% each year. More than two of every three inhabitants live in the cities or urban centres. The last reported unemployment rate was close to 10% over a total economic active population of slightly over four million.

Over the last few years, Bolivia has enjoyed the benefits of exceptional external conditions that, despite the current international crisis, persisted until the end of 2008. This generated an export boom – primarily led by hydrocarbons, but also including mining – that strengthened the external and fiscal position and boosted performance.

Large external current account surpluses – close to 12.1% of GDP in 2008 – led to an impressive accumulation of international reserves that equalled 19 months of good imports at the end of 2008.

The main factors behind this outcome were strong export increases, from US\$2.8bn in 2005 to over US\$6.3bn in 2008, and the upsurge of remittances, from US\$178m in 2004 to near US\$900m in 2008.

Additionally, due to the Multilateral

Debt Relief Initiative (MDRI), the external public debt was reduced from 52% of GDP at the end of 2005 to only 14% at the end of 2008.

The high oil prices, plus changes in the hydrocarbons taxation regime, turned Bolivia's customary fiscal deficits into surpluses. Fiscal surpluses reached 4.6% of GDP in 2006, 1.7% in 2007 and may have reached 5.5% in 2008.

Increased government revenues allowed for higher public capital formation, which went from 6.9% of GDP in 2005 to around 9.3% in 2008. Despite new or increased expenditures, the Government maintained control over them.

Economic growth also improved in recent years, even though private investment remained low. GDP growth reached 4.6% in 2007 and accelerated to an estimated 6.1% in 2008, thanks to higher exports, public investment and private consumption.

However, private investment has remained low at only 7.0% of GDP in 2008, partially inhibited by the uncertain political environment and the nationalisation process in the hydrocarbon, telecom, mining and water sectors.

Although the state-owned oil and gas company Yacimientos Petrolíferos Fiscales Bolivianos (YPFB) has signed new contracts with all foreign companies in the sector, no new significant invest-

ments have taken place, and this may affect future supply. In addition, no new significant expansions have been initiated in the mining sector or in power generation, where electricity demand is reaching supply capacity.

According to the IMF, "The current global crisis will affect Bolivia mainly through declines in commodity prices given its very limited integration with international capital markets. While macroeconomic performance has been supported by booming hydrocarbons and mining exports in recent years, real GDP growth is projected to decline to 4% in 2009 and the fiscal and external current accounts to shift into small deficits as export earnings decline."¹

Inflation rate for 2007–08 was 11.73%, more than two times the inflation rate for 2006,² and is keeping over two digits.

The structure of Bolivian exports is concentrated in 10 large product items, natural gas representing 48%, zinc and tin 12%, animal fats and residues 8%, and very little left to manufactures (articles of apparel 2%).

Bolivia ranks 130 in the Index of Economic Freedom. The country has made progress in opening the economy for imports, improved its fiscal position, reduced slightly the size of the government bureaucracy, but it lags behind in investment and financial and protection of property rights, which are all pre-conditions for a healthy leasing industry.

In terms of easiness to do business according to the World Bank, Bolivia ranks 30 out of 32 among its Latin American peers and 150 globally, with improvements only in liberalisation of trade, while the rest of all indexes have deteriorated, and in particular the ability of its population to get credit, where Bolivia went from 11th to the 20th position between 2007 and 2008 and then to 27th in 2009.³

Sovereign risk is still rated B– by Fitch Ratings.

The banking system. According to the above-mentioned report of the IMF, "Bolivia's financial system remained stable in 2008. Non-performing loans

were reduced, provisions increased and profitability also improved. Banking deposits grew 27% while credit increased by 17% in 2008. Credit to the private sector is expected to increase in 2009 as a result of political stability and the fiscal stimulus to the economy through public investment. Liquidity risk at this stage is low, even for foreign-currency-denominated deposits, since the CBB is prepared to provide enough resources to the financial system. As the staff rightly points out, its international reserves cover 120% of bank deposits.

“Despite these achievements, the authorities are aware of the remaining vulnerabilities in certain entities of the banking system and close supervision will be applied. Bolivia’s financial system has been relatively insulated from the global financial crisis, but the risk aversion from investors could pose challenges over time as the global crisis evolves.

“The Superintendency of Banks (SB) is conducting stress tests, which were available for the supervised entities in order for them to prepare action plans in case risk factors materialise. Moreover, the CBB and the SB are engaged in preparing joint contingency plans.

“Credit risk regulations are serving well, but the authorities are aware that credit risk related to exchange rate may be an issue for those who borrowed in foreign currency but generate revenues in domestic currency. The SB is preparing prudential regulations to deal with this risk, including changes in the provision regime. The SB is also working on the 2003 FSAP recommendations and has expressed its willingness to undergo a FSAP in 2010.”⁴

The leasing industry. In Bolivia, the leasing industry is highly concentrated. There are only two known players in the marketplace, namely Bisa Leasing, a wholly owned subsidiary of Banco Bisa, and Fortaleza Leasing, a new player that started operations by the end of 2007.

According to the data recorded by the Alta LAR 100 as of December 31, 2008, Bisa Leasing was the main leasing player with over 97% of total market share. For 2008, the total of the leasing industry in Bolivia can be estimated at around US\$19.7m.⁵

Law and regulations. Leasing companies. Pursuant to the Bank and Financial Entities Statute, Ley No. 1,488, April 14, 1993, banks can either directly undertake leasing transactions or create a wholly owned subsidiary, namely a finance leasing company. In any event, both entities

are subject to the *Superintendencia de Bancos y Entidades Financieras* (Banking Supervision Regulatory Body – SBEF) and therefore their operation should comply with the same regulations as banks.

Consequently, only banks and the companies having licence granted by SBEF may act as lessors in any leasing contract within Bolivia. At present, there are two finance leasing companies licensed in Bolivia, namely Bisa Leasing SA and Fortaleza Leasing SA.

Leasing companies must be incorporated with the same procedures which are necessary for the creation of a new bank in Bolivia. Minimum paid equity was, according to law 1,670, 1995 and resolution 116, 1997 of the Central Bank of Bolivia, DEG550,000 (approximately US\$726,000). Since Decree 2,297, 2001, the minimum capital required was reduced to DEG100,000 (5% of the minimum capital required to banks. For leasing companies, such amount is approximately US\$156,300).

According to Bolivian regulations, whenever any bank participates in a leasing company, it must hold a share of not less than the 51% of total outstanding shares.

For independent lessors, that restriction does not exist. So, manufacturing or trading companies or groups can incorporate a lessor without that restriction, but always filing for the corresponding licence at the SBEF.

Foreign investors are allowed to hold up to 100% of a leasing company’s outstanding shares. In addition, foreign investments in Bolivia may be insured, through Overseas Private Insurance Corporation, and through MIGA. These two entities provide a relief to country risk, since they insure foreign investments.

Accounting. Bolivia follows the same accounting principles under IAS 17. Lessors record the lease receivables in their balance sheet and only record as income the financial portion of rentals while they amortise their investment in their principal portion.

Operations. Bolivia follows the guidelines set forth by the Bank of International Settlements, under the new Basel Accord. In this direction, the “solvency ratio” (CAP) is the quotient resulting from dividing the leasing company’s equity by its total assets weighed by their comparative risk factors. This ratio was set forth at a minimum rate of 10%.

Taxation. Leasing contracts are to the

value-added tax (VAT) of 13% over the amount of the corresponding lease payments.

Income tax (tax levied over companies’ profits) is applied at a uniform tariff of 25%. For lessees lease rentals accrued or paid are fully deductible from taxable income. (Supreme decree 26,077, art.47.)

The lease contract. The lease contract is subjected to the general rules for contracts and obligations as provided by the Banking and Financial Entities Law, the Commercial Code and the Civil Code.

The legal definition for the leasing contract contained in the new Compilation of Banking Law differs from the definition contained by the Ottawa Convention. Therefore, lessors are not legally protected against defences to the hell-or-high-water provision and the tripartite nature of the leasing transaction is not recognised.

The recently enacted Law for the Strengthening of the Financial Control, Law 2,297, 2001, introduced some unnecessary restrictions to the leasing activity. In addition, it changed the definition that under Law 14,333 reflected better the actual nature of leasing.

Cross-border leasing. According to Bolivian Tax Law, rentals payable under cross-border leases are subject to a withholding tax of 12.5% (25% Corporate Income Tax rate times a deemed net taxable profit of 50% of total rentals – Art. 51 Ley 843, 1986).

Under article 125 of the General Customs Law, equipment under cross-border leasing may be imported pursuant to the temporary import system. All import duties are payable in accordance with the regulations set forth by the Customs authorities.

Repossessions and enforcement of agreements are currently in process of being reformed.

Notes:

- 1 International Monetary Fund. Staff Report for the 2008 Article IV Consultation, December 11, 2008. In: <https://www.imf.org/external/pubs/ft/scr/2009/cr0927.pdf>
- 2 Source: Banco Central de Bolivia (www.bcb.gov.bo).
- 3 <http://www.doingbusiness.org/economyrankings/?regionid=3> (last visited September 5, 2009)
- 4 *Ibidem*.
- 5 www.sbef.gov.bo

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