

Major role for Colombia's Central Mortgage Bank

Mario Calderón Rivera describes how the
Bank is Colombia's main housing
finance institution

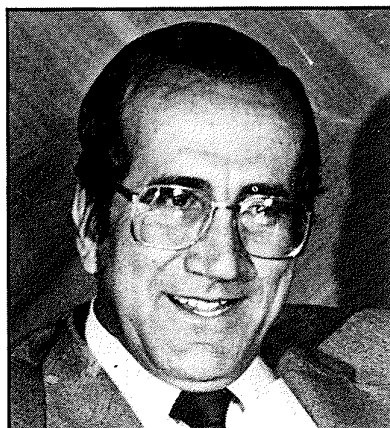
Colombia's Banco Central Hipotecario (BCH), the Central Mortgage Bank, was created in 1932 in response to the serious economic problem resulting from the Depression which shook the western world. Colombia, too, suffered from the far-reaching economic troubles of the early '30s, by way of high unemployment rates, low production and a depressed real estate market.

The BCH is a mixed economy enterprise whose shareholders are 15 banks, 14 of them commercial banks, the remaining one being the Banco de la Republica, the central bank which is the majority shareholder. The institution's total assets currently amount to Col\$239 billion (US\$1,020 million), seven times the figure recorded in 1978. In terms of volume of assets the BCH is the country's third largest bank and ninth largest enterprise. During the period 1983-1986 the bank financed 70,481 dwellings, 18.1% of the total built during that period.

Since its creation the BCH has played an important role in Colombia as the promoter and manager of a process of integral urban development within guidelines laid down by the government in power, seeking to foster and promote, by the raising of funds and the granting of credits for housing and urban infrastructure, the process of generation of growth-inducing forces.

*The BCH, the building sector
and the national economy*

Since 1970, the building sector has



been acquiring ever-greater importance within the Colombian economy. Out of the last five presidential administrations, four have made the building sector the central axis of development and two have concentrated specifically on house-building as the key strategy for economic growth. These policies are in turn based on the theories of Professor Lauchlin Currie, according to which the building sector is a leading and reactivating sector of the economy owing to its proven capacity for generating employment and its strong links with the other sectors of the economy.

More particularly, with regard to what has happened during the 1980s, the Colombian building sector has shown its power and immense potential by causing the crisis with which the great majority of the countries of the Third world had to contend, to be less serious than it might have been, since this period fortunately coin-

cided with the adoption of a clear strategy of economic re-stimulation through the building of low-cost dwellings.

The housing finance system

Obviously the presence of a lively and efficient sector for financing housing is one of the fundamental prerequisites for the success of a development strategy based on house-building. In the specific case of Colombia we can identify two basic sources of financing for housing: first, that consisting of the bodies belonging to the official sector among which there is the Instituto de Crédito Territorial, (Land Credit Institute), whose purpose is to promote official urban housing schemes designed for social groups which cannot afford to buy housing; the Banco Central Hipotecario (Central Mortgage Bank); the Fondo Nacional del Ahorro (National Savings Fund), responsible for financing the housing of government employees with the proceeds of their pension and retirement funds; the Caja de Vivienda Popular (People's Housing Fund); and the Caja de Vivienda Militar (the Military Housing Fund).

The second important source of housing finance is in the private sector, composed of savings and housing corporations, one of which is a special division of the BCH itself. The primary object of these 10 corporations is to collect savings from the public and use them for granting housing loans, initially to the builders and subsequently to the end users. These 10 corporations comprise what

is known in Colombia as the Constant Value Savings System, which was created in 1972 and has been converted into what is undoubtedly one of the most interesting and innovative experiments in housing financing.

Under this system the aim is to give the saver the guarantee that his money will retain a constant value, plus a positive "real" gain, through the establishment of a unit of measurement known as the CPPU (Constant Purchasing Power Unit). The value of the CPPU changes daily depending on fluctuations in the purchasing power of the currency in the domestic market. At the same time any operation of the system must be recorded both by its value in pesos and by its value in CPPUs. The Bank, in addition to obtaining money via the "index-linked saving" of the Constant Value System, obtains resources from a number of other funds.

In the 15 years since this system was created, about 600,000 dwellings have been financed which, undoubtedly, has helped to prevent any uncontrolled growth of the country's housing deficit. At the same time about four million savers bear witness to the confidence which the public has placed in the system, and the relatively low average per saver (about Col\$200,000, or US\$800) constitutes proof of the genuine process of democratisation of savings which has taken place in Colombia. Within the Constant Value Savings System the specialised section of the Banco Central Hipotecario alone accounts for nearly 20% of the system's total resources.

The structure of the CPPU is based on the gathering of savings from the public and their channelling into the financing of housing for all social classes, in accordance with rankings clearly laid down by the Government. This system, in turn, forms part of a much wider financial market within which a prominent position is held by the commercial banks, whose source of funds consists mainly of current account deposits, savings deposits



The Bogota headquarters of Colombia's Central Mortgage Bank.

and time-deposit certificates, while their main objective is short- and medium-term lending.

There is also the BCH, the only body of this kind in Colombia; the Savings and Housing Corporations (Corporaciones de Ahorro y Vivienda), whose source of funds consists of savings deposits and time-deposit certificates expressed in CPPUs; the financial corporations, whose primary purpose is to co-operate in the creation and organisation of firms in manufacturing industry, agriculture and stock-raising, mining and tourism, their funds being obtained by the issuing of bonds and deposit certificates; and the commercial financing companies, whose purpose is to grant credit for the purchase of durable consumer goods or services and which raise their funds by issuing fixed-term promissory notes. The Colombian financial picture is completed by certain government securities which compete with the private sector paper in accordance with clearly defined criteria of monetary policy.

The BCH organisation

The BCH's organisational structure includes a general manager, who reports to the assembly of shareholders which comprises representatives of the Minister for Treasury and Financial Affairs, the Minister for Economic Development and delegates of the central bank and the other shareholder banks. The Bank's managerial structure consists of five submanagers and four heads of specialised offices. The BCH has 3,496 employees who work at 142 offices spread among most of the country's cities.

Corporate purpose

From the point of view of both its fund-raising and lending activities the BCH's central policy objective is to promote and foster a process of urban development designed to consolidate the varied pattern of towns and natural regions which makes up Colombia and which places it in a unique situation within the range of Third World countries. The BCH also

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aims to promote the improvement of the housing conditions of the communities in the cities of Colombia and the surrounding areas, through the building and purchasing of housing, public services, equipment and urban renewal.

Aims and intentions

Through its plans and projects the BCH has endeavoured to bring about an integrated development of the country's natural regions. Its most important aims include the following:

To promote the balanced growth of the country's system of cities and regions by generating and revitalising development aims for activating and stimulating the country's growth and development.

To promote the creation of a better urban environment in which there is a close complementary relationship between the different variables which constitute the urban picture (new and used housing, urban infrastructure, complementary services, etc), and also the formulation of an integrated conception of the phenomenon of urban development. Housing, urban infrastructure and the complementary services are viewed as harmonious, perfectly integrated and consistent elements.

To halt the process of physical deterioration of towns by endeavouring to restore run-down areas through projects designed to give new life to these areas.

To maintain the fluidity and mobility of both the primary and the secondary real estate markets by reviving the market for used buildings in order to stimulate the mobility of the housing stock.

To make city centre areas denser, promoting the growth of those parts which have an infrastructure of services and limiting the growth of the peripheral areas.

To contribute, by town planning, architectural and technical standards to the achievement of

appropriate and integrated planning and control of urban development, while at the same time promoting the development of suitable technologies in the various fields of urban development.

To promote a more efficient redistribution of income both between regions and between social groups, through a strategy of placement in accordance with the central and economic aims of the government department concerned.

To strengthen the structure and increase the efficiency of the municipal administrations by means of programmes of technical, administrative and financial aid, while promoting the rationalisation of public expenditure and regional saving through investment in urban development bonds.

To seek to devise efficient fundraising schemes in order to stimulate national saving, improve the quality of the service offered to the saver and consolidate the Bank's financial position.

To promote the rehabilitation of historical and cultural areas and properties including those of historical value to the cities.

To promote the creation of unconventional financing and/or building systems designed to provide a complete solution to the housing problems of the poorest people.

Resources

Out of the Bank's total resources, 86.7% comes from private saving. 50.7% of total resources are derived from so-called index-linked saving (CPPU saving), which provides a fixed quarterly interest plus a daily adjustment calculated in accordance with the rise in the index of consumer prices. The Bank's non-index-linked resources (traditional resources) represent 36% of its total resources. Around 2.73% of its resources come from international agencies or banks

(including the IDB and KFW) while about 2.5% come from the national government and 0.55% is obtained from the municipal governments in the form of urban development bonds (Bonos de Desarrollo Urbano — BDU). These last three categories are entirely devoted to the financing of infrastructure and urban equipment.

The BCH has also financed urban housing and infrastructure projects with resources from the disability, old age and dependant's pension funds of the Colombian Social Security Institute, which are administered under the trust system via the so-called constant-value bonds. With these the Bank has built major urban complexes, guaranteeing a relatively high return on these administered monies.

Plan and programmes: housing

From the very start the BCH directed its financing activities toward the elimination of the country's housing deficit, directing its efforts of financial intermediation towards the achievement of balanced growth of the Colombian cities, the intention being to give assistance to families in various social strata. A fairly large proportion of the building financed by the Bank between 1932 and 1970 and throughout the greater part of the 1970s was carried directly by this institution. During the past few years, however, the BCH has been fundamentally a financing bank rather than a direct house-builder, despite the fact that it is still engaged in major building projects in various Colombian cities.

The BCH has traditionally financed the activity of a large proportion of the construction companies involved in these works by schemes of placement of resources which have been aimed at decentralising credit-granting and dynamising the national building industry. The Bank has sought, in the same way, to direct part of its resources towards the granting of loans designed to stimulate the building material industries.

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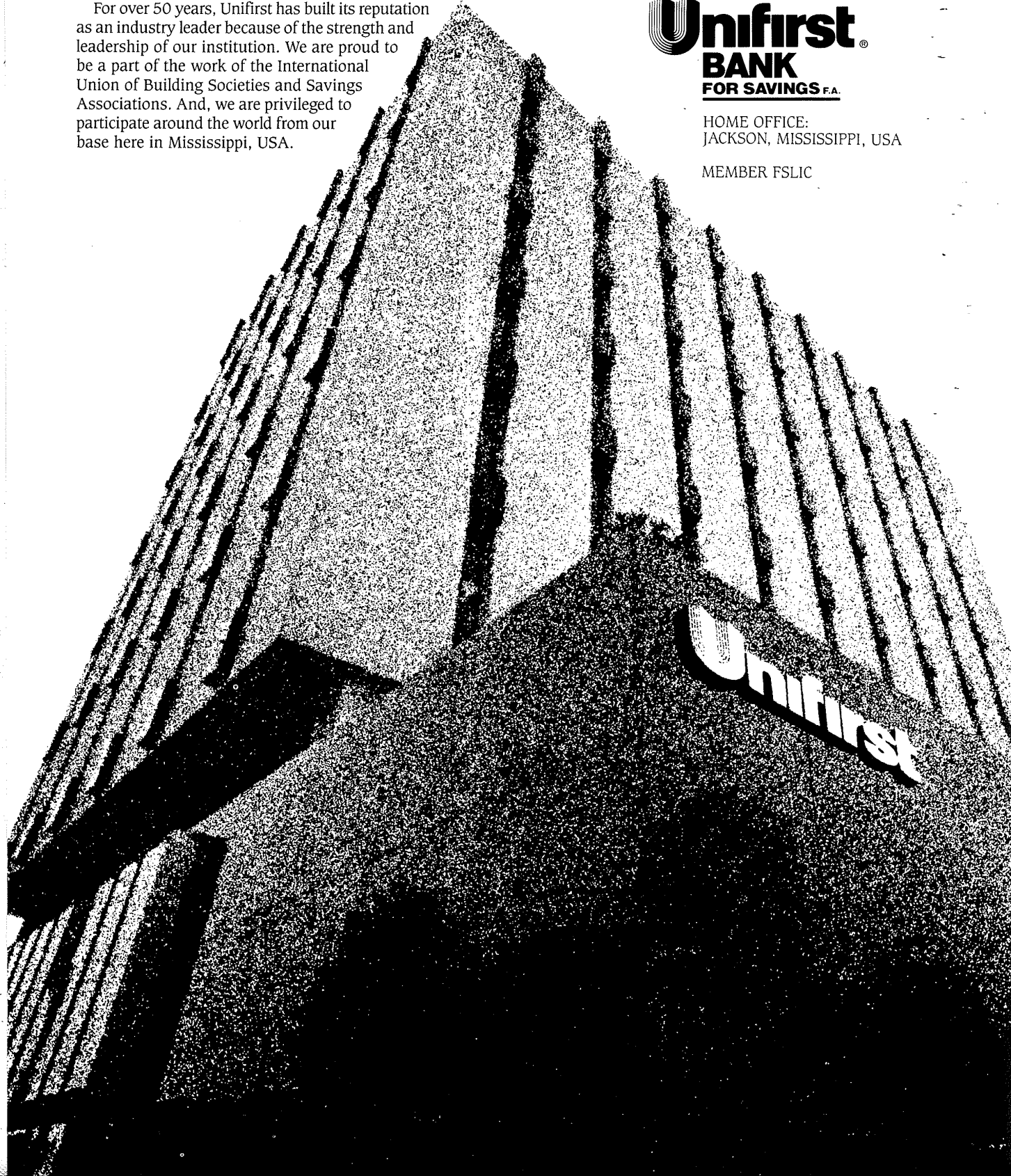
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Reconstruction programmes

Historically, the BCH shared the destinies of those who have suffered damage from various natural disasters. In 1950 the Bank provided financial assistance to those who suffered damage from the sad events of April 1948 which destroyed a large proportion of the city of Bogotá and, later, to the victims of the Cali disaster in 1956. The Bank likewise provided technical and financial aid to the victims of other natural catastrophes such as the Manizales, Armenia and Armero earthquakes, in connection with which it granted housing loans at low interest rates.

In connection with the 1983 Popayán earthquake, the BCH was responsible for carrying out the programmes of reconstruction of that town. The funds obtained from the national government were devoted to the repairing and rebuilding of property. The Bank, using its own resources, also considerably stepped up the financing of large-scale housing programmes; furthermore, it channelled resources to meet the needs of industrialised manufacturing and use of building materials and granted loans to sectors complementary to housing, such as business, office and other premises.

Plans for urban renewal and recovery

The BCH has also endeavoured, through its activity as a financial intermediary, to revive the city centres by rehabilitating major sectors. Thus the Bank has devoted a substantial proportion of its financial resources to what is known nowadays as the Centro Histórico y Gubernamental de Bogotá (Bogotá Historical and Government Centre), which is at present the very heart of the city. Similarly, the BCH has financed major projects designed to bring about the recovery of important city centre areas in Colombia. Major projects in Medellín, Manizales, Armenia and Barranquilla are just a few examples of schemes whereby some Colombian cities have benefited directly by bold and imaginative plans which

have given them new life.

Perhaps the most significant projects undertaken by the BCH are the "citadels" of El Tunal and Nueva Santa Fé de Bogotá, located in the south and centre of Bogotá respectively. These projects comprise the building of 8,800 dwellings, in four- and five-floor multi-family buildings which include extensive recreation areas, shopping centres and sufficient internal green areas.

Now that a large proportion of the development stages of these two projects have been completed and the dwelling taken into use, we can note with pleasure their proper operation, their excellent construction system, and their high architectural quality and have the satisfaction of having provided important areas of the capital city with an up-to-date, enhanced and constructed complex as an urban land-mark and image — an example to any town in Colombia and in Latin America. The second of the projects is aimed at preserving the colonial architectural structure of the 16th century, with emphasis on the leisurely street pattern of the beginning of the century. El Tunal likewise incorporated novel construction systems as well as a solar heating system and efficient refuse disposal.

The same year also saw the start of the building of the "Ciudadela El Salitre" project in the capital of the Republic, one of the best designed town planning projects, aimed at the building of about 20,000 medium-category dwellings in four years in an area close to the city centre.

People's economic housing programmes

The BCH's activity during the period 1982-1987 took place within the framework of the government's economic policy, in which the building sector plans an important role as a reviver of economic activity and a pillar of social policy, now mainly focussed on the production of low-

cost housing designed to meet the needs of lower-income families.

Out of the total of 400,000 dwellings completed in Colombia during the period 1983-1986, the BCH provided a total of 70,481, of which 50.9% consist of dwellings costing less than Col\$1,894,000 (US\$7,629), while the value of about 28.6% of these dwellings built is between Col\$1,894,000 and Col\$4,082,090 (US\$7,629-16,442). This bears witness to the strong support given by BCH since 1982 to the programmes designed to meet the housing needs of lower-income people.

Pilot programmes for the recovery of underprivileged areas

The Bank has also developed pilot schemes aimed at restoring areas of the city which do not enjoy basic facilities such as water supply services, basic complementary services and refuse disposal. One of these projects is the pilot scheme for El Vallado and El Poblado, situated in Cali. The population for which this project is designed totals about 28,000 inhabitants, of which 67% have a certain level of elementary education; their occupation is basically of the labouring type and the monthly family income is between Col\$17,000 and Col\$37,000 (US\$69 and US\$150).

In order to carry out the Pilot Programme for Self-house-building and Urban Development, the BCH entered into an inter-institutional agreement between various bodies which undertook to join forces to achieve the co-ordinated execution of an integrated community development plan based on the provisions of public services and self-building of basic housing. With the participation of the above-mentioned bodies the following activities were carried out: provision of public services, a plan for the building of walk-ways (pavements) with the active participation of the community, the marking out of roads for vehicles and paths for pedestrians, programmes with the various associated groups supported by the participation of the community

for the carrying out of job-creating activities, instruction and training programmes in building techniques and the organisation of community equipment plans. The project included intensive self-build programmes whereby those in the community were mobilised and encouraged to build their own homes by their own efforts with the technical and financial assistance of the Bank.

Splitting-up of housing

In accordance with the idea of giving an impetus to urban re-organisation and facilitating the acquisition of housing at the lowest possible cost, the BCH is developing a lending scheme for financing the splitting-up of housing. The aim of this programme is to enable a large number of blocks which are under-used in the large cities to be sub-divided into a number of dwellings, thus increasing the number of homes created while at the same time making good use of land and avoiding the unwarranted spreading of the cities.

Financing of used housing

Another important component of the Bank's policy and a necessary complement to the financing of new buildings is the restimulation and fostering of the market for used buildings, enabling a fair number of families which could not afford to buy new housing to gain access to the housing market.

Terrace plan

Research into the Colombian housing problem has revealed, in some of the country's cities, the existence of a large number of houses where it is possible to build a new storey on top of the existing ones. This scheme has been given the name of "Terrace Plan" and has made it possible to achieve very low costs per dwelling unit provided, a high rate of building, maximum use of existing urban infrastructure, less expansion of urban site perimeters and a doubling of densities.

The FFDU and the financing of urban infrastructure

The Fondo Financiero de Desarrollo

Urbano — FFDU (Urban Development Financing Fund) is a specialised promotion credit facility created to give financial assistance to local authorities in order to enable them to expedite investment programmes in schemes capable of contributing to the development of urban areas by the discounting, for banks and financial corporations, of the credits granted by these to municipalities, departments and other eligible regional bodies.

The FFDU finances programmes for public services and urban equipment, preferably those envisaged in integrated local development plans. The main aim of the Fund is to increase the coverage and improve the quality of public services by attempting to rationalise public expenditure, invigorate the local economy and support the process of political and fiscal decentralisation which the country is undergoing.

The urban sectors which can be

**‘BCH will be
main provider
of finance’**

financed by the FFDU are as follows: water mains and sewers (37.2%), urban streets and highways (32.5%), passenger transport terminals (4.5%), urban cleansing (5.8%), local telephone services and integrated housing services (6%), provision of adequate green areas and recreation grounds, market places and slaughterhouses.

The achievements of the FFDU in the course of its history can be divided into three periods. The first is the years 1968-1975, a period corresponding to the operation of the Fund under the administration of the Banco de la República; the second starts from 1975, when it was made into a new credit facility for the BCH; and, lastly, the third period, from 1981 up to the present, which has been primarily characterised by the raising of external loan funds.

The Government, wishing to reduce the existing great disparities between regions, has drawn up various schemes and programmes within which the FFDU will play a role of special importance. One of the Government's priority schemes is the Plan for Combating Absolute Poverty, which is a response to social situations of material privation and generally underprivileged situations. This plan contemplates various aims for the BCH:

- a) In the Programme for the Rehabilitation of Subnormal Settlements and the Creation of New Human Settlements the BCH will endeavour to build priority structures in various areas of the country. The programme covers a population of approximately 2.3 million and its aims are the rehabilitation of subnormal settlements (shacks and squats), the creation of new settlements, the provision of basic public services, community transport and equipment and the financing of low-cost housing.
- b) Under the Plan for Reconciliation, Normalisation and Rehabilitation the aim is to contribute to the consolidation of peace.
- c) The aim of the Programme of Sectoral Adjustment of Drinking Water and Basic Sanitation (Ajuste Sectorial de Agua Potable y Saneamiento Básico — PAS) is to re-organise the institutional management of the sector and significantly improve the living conditions of the population by increasing the coverage and improving the quality of the provision of water mains and sewers and of the system of refuse collection and disposal.

The Banco Central Hipotecario will therefore have to cope with an ever-growing backlog, becoming not only Colombia's main housing finance institution but also a financier of Colombian economic development. ■

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