



The Implementation of Contract Savings Schemes for Housing (Bausparen) in Belarus – Features, Recommendations and Examples*

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1. Contract savings schemes for housing (bausporen) in an emerging markets context

Housing is an endless topic for dinner party chats in Belarus as well as in Germany. This is not surprising since housing is often the single biggest component of their wealth. For example, housing in Western Europe accounts for as much as 30 – 40 % of total household wealth. If people do not have a house, there is a strong desire to have one (or at least to renovate the own house). In this context, the question of how to finance such transactions is raised which is in a strong correlation with affordability, in particular for low to middle income groups.

When do bauspar systems appear suitable to implement in emerging housing finance systems?

- **Affordability:** the Department of Housing and Urban Development (USA) defines "affordable housing" as a home which costs less than 30 % of a family's income in either rent or a monthly mortgage. When households pay more than 30 % of a family income, they tend to skimp on other necessities, such as health care. Poor access to housing loans, especially for low to middle income groups, is usually caused by:
 - **Ill-functioning legal conditions:** the existence of a working legislation and stable institutions (e.g. Central Bank) are an essential prerequisite for a functioning banking sector. As for housing finance, incomplete land registries for example make it rather difficult to convert property into liquid funds through a mortgage (since there is no clear, registered title to the land and the registration of the mortgage in the land register).
 - **Underdeveloped retail financial markets:** a poorly-developed banking sector lacks the capacity of providing long-term capital for long-term investments. Often, property value monitoring is hardly achievable. Thus, banks hesitate to enter into housing finance.
 - **One consequence of an ill-functioning banking sector is an absence of long-term savings/low official savings ratios.** In addition, other institutional long-term investors (pension funds, insurance companies etc.) remain underdeveloped. Coupled with that, people prefer to put their savings into "shoe-boxes" instead of channelling them into the banks, which could use these funds to finance medium/long-term housing investments. To give you an example, experts estimate that the shoe box money in Russia amounts up to USD 20 billion – 50 billion (in foreign currency, as a result of the financial crisis of 1998 because the confidence in the stability of the Ruble is still limited).
 - **Income:** typically, the residential mortgage markets in transitions economies are characterised by vast differences between house prices and the incomes of the citizens. In addition, banks face substantial difficulties taking into consideration the legal, but undeclared incomes when assessing the creditworthiness of the potential borrowers. However, these incomes account for a considerable share of private household revenues.

In conclusion, we may identify three main reasons why market based long-term finance for housing is difficult to obtain in transition economies, especially for middle and lower income groups:

1. High inflation rates have been so far an obstacle for long-term savings. As a result, banks lack long-term funding sources in order to finance long-term projects (e.g. housing).

2. Ambiguous attitude of banks towards property as collateral; foreclosure is often difficult.
3. Banks focus on corporates. Retail banking is limited to selected customers (higher income groups) and few transactions/services (e.g. credit cards, payment cards, consumer loans and payment services).

How can bauspar systems offer a solution to combat housing shortages?

With rising economic growth, demand for housing also increases in Belarus. In this context, bauspar systems may help mitigate housing shortages and improve housing affordability. Before implementing bauspar systems, answers to the following questions should be found:

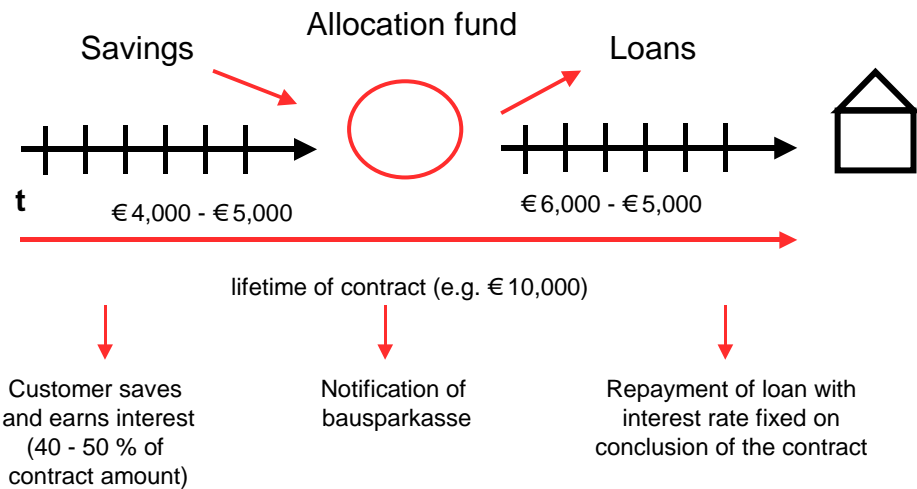
- When are bauspar systems likely to be successful in mobilising long-term savings for housing? Why will a household (especially middle and lower income groups) conclude a bauspar-contract? When is a bauspar-contract attractive for them?
- How do bauspar systems react under changing macroeconomic and financial market conditions? When will a bank offer bauspar-contracts?
- Which risks does the bauspar system entail, both to the banks that offer them and to the government that support them? How do bauspar systems contribute to the development of financial markets and the housing sector? What kind of difficulties do financial authorities face in regulating bausparkassen?

The objective of this paper is to give you an answer to these questions raised. In addition, the answers will be supported by examples of already existing bauspar systems.

2. How do bauspar systems work?

The bauspar system offers a dedicated loan-linked form of saving. It links a phase of contractual savings remunerated below market interest rates to the promise of a housing loan at a rate fixed below market at the time of the conclusion of the bauspar-contract. Originally designed to provide long-term funds to be specifically channelled into the housing sector at a time when long-term finance was not available and reconstruction was a national priority, bauspar systems have won a positive record in continental Europe.

How do baupar systems work?



In general, the baupar contract is designed in a way that the accumulation of savings is linked to a loan offer. Thus, we can differentiate four elements:

1. Conclusion of the contract with the following items such as specific contract sum (in our example € 10,000), savings rate, repayment rate, interest rates for the savings and the loan etc.
2. Savings period: up to 40 – 50 % of this amount will be saved (= € 4,000 - € 5,000) in monthly instalments. The use of the funds is restricted to housing purposes.
3. Allocation period: in general, the customer saves for 3 or 5 years, before a loan offer will be made to him. Once the customer has completed the savings period, he is entitled to a loan. The size of the loan is usually the difference between the contract sum and the amount saved (e.g. in our case € 6,000 - € 4,000).
4. Since the baupar system is managed as a closed system, banks can only allocate those saved funds in form of loans to the customers, which the banks have previously collected. Hence, customers are subject to a waiting period the length of which depends on the availability of funds. The challenge for the bauparkasse in managing such an "allocation pool" is to balance fluctuating inflow and outflow of funds in order to meet all the future loan demands of the customers within a reasonable time span. Short and consistent waiting periods are an important factor of the attractiveness of the system. Therefore, specific queuing rules determine the sequence of the loan disbursements to the customers.
5. Loan period: the customer repays his loan on the basis of the agreed interest rate.

A sound financing structure for a home

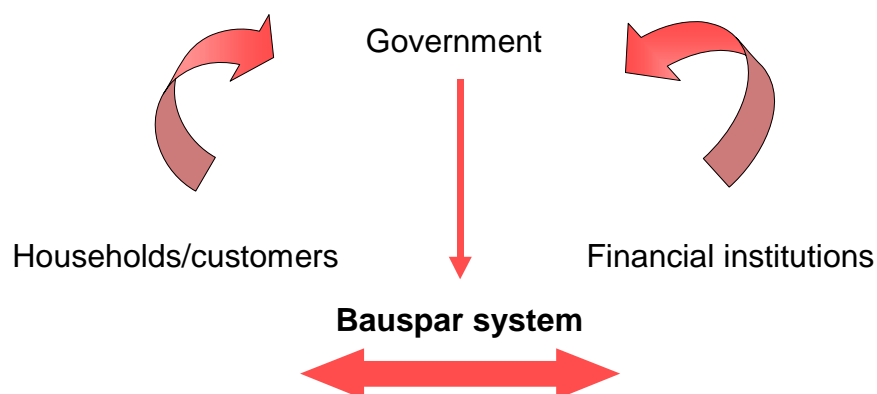
In Germany, you will regularly find the following financing structure: a combination of a baupar loan and a mortgage loan has appeared as a good solution of a balanced financing structure of a home. The baupar-funds which account for roughly 30 % of the purchase price of a home supplements the mortgage loan (50 % of purchase price) and the down-payment (20 % of purchase price). The baupar system has a complementary function.

Conclusion: From a financial perspective, the bauspar contract introduces an option component to the contract. The customer has the right, but not the obligation, to call a loan at pre-specified terms from the bank. Since there is no free lunch, the price for the option is the interest rate in the savings period below market and a possible waiting period in the allocation period. This option may be very valuable to the customer for three reasons: the loan is typically at a below market rate, interest rates are fixed over the whole lifetime of the contract for the savings and the loan (safeness of interest rates) and the customer benefits from a simple underwriting process to receive the loan proceeds. This option may be perceived as very valuable in a market where mortgage loans are not yet generally available i.e. capital markets do not work and many households do not have experience with the formal financial sector.

3. General features of bauspar systems in transition economies

The different features of bauspar systems will be regrouped according to the participating parties: customers, financial institutions and the government. Each member has different expectations and concerns on bauspar systems (overlaps cannot be avoided):

General features of bauspar systems in transition Economies



Customers' (households') view:

- Credit option of the bauspar-contract: the guarantee of a loan for which the customer does not have to qualify at the time of contract completion may have a significant value for him. He is able to demonstrate his creditworthiness through regular savings which the lending bank may regard as a substitute for a lacking credit history. An additional incentive is that banks rarely offer long-term fixed rate loans or offer these only with excessive rates.
- Inflation rate: one precondition for saving activities are stabilising or stable inflation rates. In Belarus, the inflation rate is expected to fall to 8 – 10 % (according to governmental estimates).
- Financing of renovation or modernisation measures: Since the average amount for these project oscillates around € 3,000 – 6,000, the bauspar loan offers to the customer an interesting alternative because a consumer loan is too expensive.

Furthermore, a mortgage bank starts lending from € 50,000 because small loan amounts are not profitable for the mortgage bank.

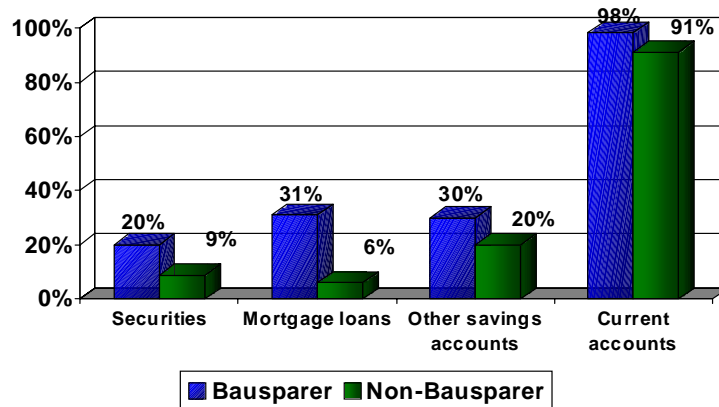
Financial institutions which want to offer baupar-contracts:

- Credit risk: the greatest attraction of bauparen for lenders probably lies in their capacity to lower credit risk because a successful saver has demonstrated his ability to budget and set aside a portion of income for savings during an extended period (at least 3 to 5 years). Such behaviour indicates that he will probably be a reliable borrower, too. As a result, lending to a baupar-client is perceived as less risky than lending to an average borrower. This assumption can be confirmed by surveys from Germany which reveal that people with baupar-contracts show a lower number of foreclosures sales in comparison with borrowers without a baupar-contract (as per 1998 0.15 %). Moreover, the default rate of the German bauparkassen was about 0.02 % of their entire loan portfolio.
- Liquidity risk in view of volatile inflation rates i.e. interest rates: the key risk of the baupar system is liquidity risk, or the risk that banks will have insufficient funds to meet future loan demands. The possibility of a cash shortfall arises when the cash from new deposits and existing loan payoffs is insufficient to fund loan commitments (i.e. loans to savers who have completed the savings period).
- The magnitude of liquidity risk is determined by three factors: First, the duration of the loans and the savings deposits: the longer the maturities of the savings and the loan period the lower is liquidity risk. Second, the loan-to-savings multiple: the larger the multiple, the greater the liquidity risk. Third, the nature of the loan commitment: liquidity risk is lower if the bank determines funding of the loan commitment.¹
- Interest rate risk is in a closed baupar-system limited by contract design. Rates on savings and the loan are fixed for the maturity of the contract and do not vary with market conditions. The spread between the interest rate on the savings and the loan is usually 200 - 300 BP, i.e. the credit interest rate is 2 % p.a. and the debit interest rate is 4 – 5 % p.a.² In an open baupar-system (e.g. French épargne logement system) interest rate risk is of greater concern.
- Relationship with the customer: signing a baupar-contract implies that the bank will enter into a relationship with the customer for at least six years and most often for 15 to 20 years. This long-term link allows for the bank to deepen the relationship and to offer various possibilities for cross-selling. According to the graph, German customers who have acquired a baupar product, buy at least two to three additional products from the bank, which sells baupar contracts.

¹ Inflation rates have a major impact on the flow of funds into the baupar system since the bauparkassen offer savings with a below market interest rate. In order to manage liquidity risk, bauparkassen must ensure continued attractiveness to new savers, which is a function of both the savings return and the availability of loans. However, existing contractual obligations will always be met because the allocation fund is filled up by both the savings and redemption payments. This means, the bauparkasse can also use the proceeds from the allocation fund to pay back the savings. As a consequence, a bauparkasse will constantly adapt the baupar-product to the changing market conditions (inflation rate/interest rate) in which it operates. Therefore, a bauparkasse needs a concept which allow the banks to modify the conditions of the contract in order to meet future demand. However, modifications should only be applied for the next "saver-generation". Otherwise, confidence into the system will deteriorate.

² Average condition of baupar contracts in Germany.

**Break-down of product use of banks with
bausparkassen subsidiary and banks operating
without bausparkassen subsidiary in Germany
(per 2003)**



Government's view:

- Mobilisation of funds: the government views bausparen as a useful tool to mobilise funds in order to promote housing output expansion. Bauspar systems are often understood to improve the access to credit for middle and lower income groups because they have the ability to show their financial discipline (through regular savings).
- In this context, the bauspar system can be a means of managing the issue of legal, but undeclared income. To the degree that an individual or couple may sustain a given monthly allocation to savings, they may establish their capacity to sustain a comparable mortgage payment, even if it seems high in terms of their reported salary.
- Subsidies: Governments, which intend to mobilise saving activities, may consider the introduction of subsidies to induce savings activities, especially for middle and lower income groups. The underlying rationale for such a policy is that the linkage between savings and accessing an ownership subsidy may prove very efficient in building up the financial resources of the household before owning a house. Bausparen may be one way of achieving this goal. It is evident that other possibilities also exist
- Subsidies are also aimed at supporting the transformation of short-term savings to long-term savings and investments. Under these circumstances, the government wishes to encourage housing demand which should be relatively independent from the development of market interest rates and cyclical motions.
- The crucial question for the government is the optimum deployment of the subsidies related to budget resources and their effects on housing activities. Two criteria may measure the effectiveness of subsidies: relative and absolute magnitude and potential for distortion.
- The introduction of subsidies serves to induce savings activities (start-up effect). However, subsidies should not be used to keep a system running (magnitude). Otherwise, we may observe a substitution effect: people channelling their savings into it in order to receive the subsidy instead of using them for housing purposes.

We may then observe rent-seeking effects which lead to market distortions (potential for distortion). The money once spent in order to serve a well-accepted goal will be wasted. Therefore, the system should be self-sustainable. For example, subsidies should be linked to the use of the funds for housing purposes. If real interest rates are expected to decline and the probability of macroeconomic shocks is judged to be low, a lowering of the subsidy should not be excluded.

- Stability of the bauspar system: long-term obligations require special protection so that customers are willing to entrust their savings to a bank because failures where depositors have lost money may have a lasting impact on the savings willingness and the viability of the institutions which administer them. Furthermore, the stability and attractiveness also depends on how people perceive the government's conception of the bauspar system and how these institutions deliver the loan. Therefore, regulations must ensure that the bausparkassen are well managed.
- Integration of bauspar system in financial markets: the establishment of the bauspar system should be consistent with the trend towards integration of financial markets. Specialised institutions may be viewed as an impediment to integrated financial markets because this approach implies less diversification and reduced cross-selling opportunities. Liquidity must be managed and monitored more carefully because of fewer possibilities to evade macroeconomic shocks. Furthermore, they cause additional costs to the institutional participants because the banks must be separately capitalised and competent staff in the supervisory bodies is needed to ensure the functioning and the stability of these banks. On the other hand, a clear focus may guarantee best that the flow of funds collected by them will be dedicated to housing purposes. Specialised institutions also underline the strict mutuality and transparency of the system: almost all funds come from savers (mutuality) and may be used only for housing loans (transparency). Since the bauspar funds are clearly separated from other activities, the supervisor can monitor flow of funds more easily.

4. Examples of implemented bauspar systems

The following countries have adopted bauspar systems comparable to the German bausparkassen model: Czech Republic, Slovakia, Hungary and Croatia. Operations of bausparkassen have started in Romania in 2004. Outside Europe, the bausparkassen have expanded to India. In China, activities have been launched this year. The introduction of bauspar systems has also been discussed in the Baltic States, Bulgaria, Serbia, Ukraine, Russia, Kazakhstan, Armenia and Azerbaijan.

Before tackling the question of how bauspar systems have been implemented in housing finance markets and what has been their outcome, I would like to briefly explain why bausparen has emerged in Germany.

Since conditions in Belarus may be comparable to those in Germany one hundred years ago, the evolution of the German housing finance market may serve as a good example how to present housing finance solution to households, lenders and the government in Belarus. Berlin, which became the capital of the new Germany in 1870, attracted many investors. Poor housing and working conditions became the rule for the average worker. They lived in the so-called backyards in humid flats (the house at the front of the streets were reserved for the upper class).

Having its roots in the United Kingdom about 300 years ago (Ketley's Building Society in 1775), bausparen provided a sensible solution in view to the severe housing shortage and the restricted access of lower to middle income groups to housing finance. Founded as mutual self-help organisations, these "savings community"

became very attractive to the people which allowed them to regularly save and receive a loan according to pre-determined queuing rules.

Initially, *bausparkassen* offered complete home financings like ordinary mortgage banks. However, this business model was restricted by the saver's capacity and persistence. This restrictions became even clearer since the waiting periods became longer. Even if the offer of complete home financings was the result of the situation after World War I, the *bausparkassen* started specialising on loans secured by second ranked mortgages: universal banks and mortgage banks granted mortgage loans up to an LTV ratio of 60 %. *Bausparkassen* granted loans with an LTV ratio between 60 % and 80 %. The remaining 20 % of the price for a home constituted the down-payment. This "division of labour" between commercial banks and mortgage banks (home financings secured through first ranked mortgages) and *bausparkassen* (home financings secured through second ranked mortgages) has emerged and proven rather successful and was later confirmed by the government in its legislation for mortgage banks and *bausparkassen* (it is still working in that way today).

It is now interesting to explore how the *bauspar* systems have reacted to the criteria formulated above:

Bausparen in Germany

- Households:
 - Attractiveness of product: the market share is roughly 30 % (2002); since 1948, the *bausparkassen* have disbursed loans exceeding € 700 billion which have been invested in the construction of more than 14m homes. Every third person in Germany has a *bauspar* contract (about 26m contracts). Since the end of the 1990s, *bausparkassen* have managed to attract a rising volumes of contracts, especially since Germany has fallen into recession because people seek secure investments.
- Financial institutions:
 - Provider: *bausparkassen* operate as specialised institutions.
 - Relationship with the customer: *bauspar* contracts are part of the allfinance strategy of nearly all commercial banks in Germany which shows the still on-going viability of the system.
 - Credit risk: despite recession in Germany, the default rate of *bausparkassen* customers has only risen from 0.02 % as per 2001 to 0.04 % as per September 2003.
 - Liquidity risk: *bausparkassen* are not obliged to fund the *bauspar*-loan at a particular date. The average waiting period for loan allocation is currently zero (after the savings period). Liquidity management may be more transparent because funding beyond the pool will be visible in the balance sheet.
 - Interest rate risk is limited by contract design because rates are fixed during whole lifetime of contract.
- Government view
 - As for mobilisation of funds, the *bauspar* system has proven as an effective tool. *Bauspar* funds were involved in the construction of 13 mio. dwellings since 1948.
 - Subsidies: payment is subject to income thresholds (taxable income up to € 25,600 for single person and € 51,200 for married couple). Bonus is 8.8 % of annual savings up to a maximum of € 512 (single person) or € 1,024

(married couple). Thus, the bonus amounts to € 45.06 and € 90.11 respectively. Furthermore, funds are to be placed for 7 years in the bauparkassen in order to receive the subsidy. There are no tax exemptions. Subsidies target lower and middle incomes groups. The payment of the premium is not regulated in the bauparkassen act, but in a different act called the act on savings premium dedicated to housing (Wohnungsbauprämiengesetz). This act is also aimed at supporting other savings models dedicated to housing with a premium. To date, the bauparkassen have been the only financial institutions which offer such products.

- Stability: the baupar system has contributed to stable financing structures. Even in times of economic decline, no massive rise of foreclosures sales has been observed Many banks require a baupar contract for the mortgage loan.
- Integration in financial markets: most of the bauparkassen are subsidiaries of commercial banks which indicates their importance as a distribution outlet.

Bausparen in Slovakia

Housing construction financing is offered by bauparkassen, mortgage banks and the State Housing Development Fund (SHDF), a state-owned entity. The following graph gives an overview about their respective loan delivery (from 1996 – 2002):

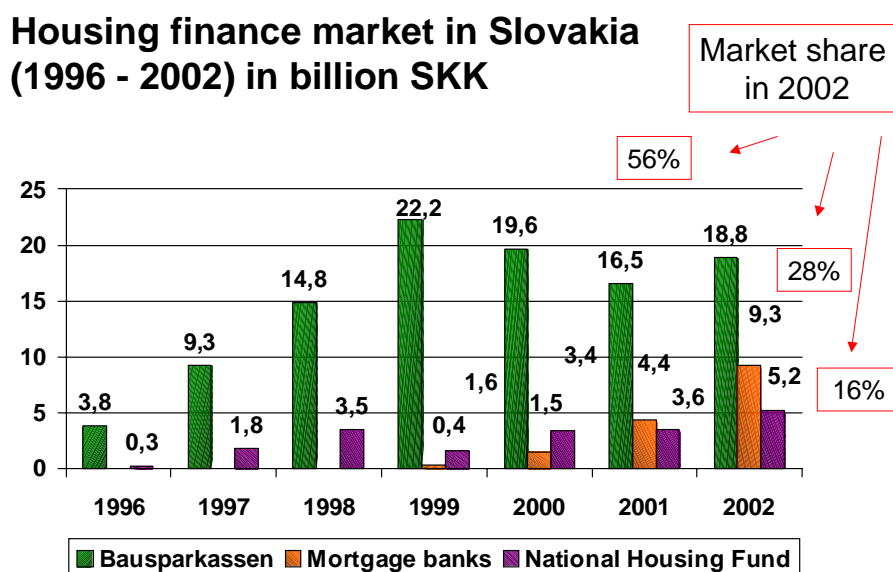


Table: Housing Finance Volumes in SKK billion of banks, bauparkassen and the SHDF (1996 – 2002); source: OECD, author's calculations.

To date, bauparkassen have emerged as the most important providers of housing finance. The 3 bauparkassen, which operate in Slovakia, have achieved a total financing volume of € 2,063.7 mio. The ratio of granted housing loans to the volume of received housing baupar-deposits amounts to 98 %. The figure means that 98 % of savings received (including subsidies) are disbursed in form of housing loans to the customers of the bauparkassen. Interest rates on savings vary between 2 % and 4.5 % p.a. (market rates oscillate between 3 % and 6 % p.a.). Interest rates on baupar-loans fluctuate between 2.75 % and 6 % p.a. (interest rates for mortgage loans between 7.5 % and 9 % p.a. excluding interest rate subsidies). Usually, terms

of baspar-loans vary between 8 and 20 years. Funds are used for renovation/modernisation (37%), construction (23%) and purchase of home (40%).

A rising volume of mortgage loans granted through banks and mortgage banks has emerged since 1999 when the government has introduced interest rate subsidies. To date, the subsidised loans have accounted for more than half of all mortgage loans granted. Until the introduction of the interest rate subsidy, the volume of granted mortgage loans has been negligible (compared to other commercial activities of the banks).

The establishment of the State Housing Development Fund (SHDF) is aimed at extending government aid to the improvement of the housing stock. The SHDF mainly grants advantageous long-term loans and non-recurring bonuses for the construction of dwellings or renovation/modernisation of houses. Since its inception in 1996, the government has channelled through the SHDF funds in the form of direct subsidies of € 288 mio. to Slovakian citizens.

The three participating parties have the following experiences with the baspar system:

- Households
 - Rising contract volumes and loan disbursements show a wide acceptance of the population. About 60 % of the baspar customers conclude a new contract after completion of the previous contract. Bausparkassen are considered stable.
 - Attractiveness of product: about 2.6 mio. Slovaks have concluded a baspar-contract (about 50 % of the population).
 - Concerns about inflation: favourable macroeconomic conditions have encouraged growth of baspar-funds.
- Financial institutions
 - Bausparkassen have offered an alternative for ordinary bank financings. Customers mainly derive from middle and lower income groups. A balanced risk structure prevails. The default rate of all basparkassen amounts to 0.56 % of their whole portfolio.
 - Provider: basparkassen operate as specialised institutions
- Government:
 - Mobilisation of funds dedicated to housing has been effected.
 - Subsidies: the government has adapted the subsidy payments according to the development of the inflation rate and the basparkassen. Subsidies have proven to be a beneficial catalyst to starting the system.
 - Integration in financial system: currently, basparkassen are the only working loan providers for housing purposes. Especially of middle and lower income groups face difficulties obtaining a mortgage loan from a commercial bank.

Recent developments of implemented baspar systems in India and China

In India, there is a large gap (55m) between the existing housing stock and the demand for new houses; the demand for new dwellings is expected to further increase by 20m units a year (in addition to the already existing gap). Especially low and middle income groups have no access to housing loans. In this context, microentrepreneurs (shop keepers, craftsmen, carriers etc.) have difficulties to prove a steady income. Through the savings mechanism of the baspar system, they are

able to build up a stable payment history. A fully-fledged implementation of the baspar system has taken place in March 2003. It is expected that the baspar system attracts about 250,000 new customers per year.

In China, the housing market is expected to grow by 10% annually (which is equivalent to about €1.3billion). The purchase price of an apartment (about 80 square metres) amount to €25,000.00. The average annual income is €3,800.00. The government wants the citizens to do their own provisions for housing finance. Therefore, citizens are in need of mechanisms which manage savings accounts and grant loans. The baspar system has been effective in the province Tianjin since the beginning of 2004. Experts reckon that the contract volume in the next 3 years is likely to rise up to 160,000 (which corresponds to an expected financing volume of more than €1billion).

5. General evaluation and conclusion

Baspar systems are aimed at increasing savings, indicating the creditworthiness of the future borrower and thereby channelling loans with an interest rate below market to housing (in order to complement market rate financing). In this context, basparkassen have specialised in mortgage loans secured through second ranked mortgages and in granting loans to middle and lower income groups who often have no suitable access to credit mainly because of a lacking down-payment.

The implementation of baspar system in a transition economy requires a thorough evaluation of every feature of the system since households (customers), financial institutions and governmental bodies enter into long-term relations:

Households (customers):

Baspar-contracts facilitate the accumulation of funds and offer the prospect of a low-interest loan. They promote savings discipline and provide a concrete goal that many households consider important.

Furthermore, they offer better access to credit which is particularly important for low and middle income groups because they have the ability to prove their financial discipline (through regular savings). As a result, they benefit from a better creditworthiness towards the bank (achievement of more favourable credit scores), particularly in countries with poorly functioning legal conditions.

Baspar systems also provide a buffer in case of difficulties: if a property is 100 % financed through mortgages, no room for manoeuvre will be left in case of declining house prices. The situation may worsen if customers have not agreed on fixed interest rates or if the fixed interest-period expired and they face higher interest rates for the next period.

High inflation rates may lead to longer waiting periods if the inflow of funds into the basparkassen slows down.

In Belarus, borrowers also need money to finance the modernisation of renovation of their dwellings. These activities usually require lower demand for financing. In this context, basparen offers an alternative since small loan amounts are available at reasonable prices.

Financial institutions:

For financial institutions, which envisage the implementation of basparen, the system can help to overcome the severe information asymmetries they face in transition or developing countries where there are usually no retail financial markets, weak legislation and problematic income reporting. Baspar systems are very effective in screening, monitoring and establishing the reputation of steady savers as future

borrowers. They are good at lowering credit risks because baspar systems enhance the capacity and the willingness to repay the loan. They are also an important tool for developing and deepening the customer relationship (cross-selling).

However, baspar systems are subject to liquidity risk, since baspar systems need a constant inflow of funds to meet future loan commitments. In case of volatile inflation rates (i.e. interest rates) it may be difficult to attract new savers. One decisive factor in this context are short and consistent waiting periods.

The attractiveness of baspar systems is closely related to the macroeconomic and legal conditions. It is therefore important that people perceive the institutions managing their funds as stable and viable so that they do not risk losing their money. Close government regulation and supervision should be the crucial measure. Under these circumstances, the invitation of foreign investors may be a suitable step to build up such a system. The confidence in such a foreign-owned entity may be higher.

Government:

The underlying rationale for the government to promote the implementation of baspar systems is that they help overcome information constraints on financial contracts and contribute to higher financial savings rates. Before introducing baspar systems, however, policy makers should identify and thoroughly investigate two points:

First, the general housing finance system that they intend to promote and how it will interact with the overall financial system. Second the financial costs and benefits of every option embedded in the proposed baspar system. Areas to be regulated are the definition of the waiting period, duration of the savings period, requirements of reserve funds, general contract management and the supervision of the basparkassen.

A further point to be taken into consideration is the integration of the baspar system in the overall national financial system. Baspar systems may stabilise the prospects for development of market based housing finance systems and the banking sector as a whole. The question whether this goal may be best achieved through specialised institutions may be answered by the experience of Germany, Slovakia and India.³

Hence, the basic function of the baspar system is to assist the customers in building equity for down-payment and to complement the first mortgage loan. Since basparkassen are specialised in housing finance for middle and lower income groups, they could contribute to the government's objective to extend their access to housing finance. As a result, baspar solutions will not only help offer sustainable housing finance solutions to low and middle income borrowers, but they will also pave the way for the development of broader capital market solutions in Belarus.

Author: Dr. Friedemann Roy

Berlin, October 2004

³ A recent case is Mexico where the company "Hipotecaria Su Casita" operates as specialised institution for housing finance. The company was established in 1994. Today, it manages assets worth USD 1,300 mio. 65,000 loans have been granted yet.