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TECHNICAL NOTE

STATE'S ROLE IN FINANCIAL SECTOR

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CONTENTS

Tables and Figures

GLOSSARY

BANVHI	Banco Hipotecario de la Vivienda
BP	Banco Popular y de Desarrollo Comunal
CBA	Cost-benefit analysis
CREDES	Créditos de Desarrollo
INS	National Insurance Institute
FCD	Fondo de Crédito para el Desarrollo
FOFIDE	Fondo de Financiamiento para el Desarrollo
FONADE	Fondo Nacional para el Desarrollo
GAM	Gran Área Metropolitana
MSMEs	Micro, small, and medium enterprises
SBD	Sistema Banca para el Desarrollo
SFN	Sistema Financiero Nacional
SOBs	State-owned commercial banks

EXECUTIVE SUMMARY

1. **The history of the state's footprint in Costa Rica's financial sector goes back a long time, with sector liberalization being a fairly recent phenomenon.** Banco de Costa Rica, the first state owned bank was established in 1877. Banco Nacional de Costa Rica and Instituto Nacional de Seguros were established in 1914 and 1922, respectively. For many decades since their establishment these financial institutions had monopoly powers in their sectors, supporting an economy dominated by the state. State banking monopoly ended in 1995 when private and foreign banks entered the deposit market. The 2009 ratification of CAFTA-DR ended the state's monopoly in the insurance sector. In 2008, the System for Development Banking (Sistema Banca para el Desarrollo (SBD)) was created to focus on development/financial inclusion priorities for micro and small enterprises of Costa Rica. With the inertia of the legacy model and more recent adaptations, the mix of regulations, institutions, and instruments has created a unique development finance framework. The state continues to regulate allocation of a material size of financial system flows.

2. **The state footprint, from the point of view of public finance and developmental impact, requires thorough and regular reviews and evidence-based effectiveness assessment.** Over the last few years, the financial performance of public financial institutions has been strong - a positive from the macro-fiscal and public asset management perspective. However, the strong performance has been underpinned by various competitive distortions. A cost-benefit analysis of the distortions might help uncover systemic inefficiencies and suggest options for more impactful allocation of public equity capital and incentives. Removal of the distortions is unlikely to make a big dent in the financial performance of public financial institutions, whereas it would contribute strongly to continuous market liberalization. Key policy consideration is whether (i) the stock of public investments (equity in SOBs and National Insurance Institute - INS), (ii) the flow of income (profits), and (iii) the funding flows mandated or influenced by regulatory distortions can be directed to investments and funding with higher developmental impact.

3. **SBD has been a good transitory system for development finance but should continue its evolution into a better-optimized structure**. It has important positive aspects, such as the guarantee fund and the entrepreneurship development network, as well as its targeting of the underbanked part of the MSME universe. However, funding flow wise, the system seems unnecessarily complex and too operationally dependent on inflexible laws and public banks. It also maintains an element of financial repression, masking deeper structural issues.

4. **Banco Popular y de Desarrollo Comunal (BP) is the fourth largest bank by assets, maintaining a stable market share and credit growth similar to commercial peers.** Its financial performance has been strong; however, BP's business model for funding its capital and liabilities is based on uncompetitive practices. The model is materially reliant on the transfers of Pillar II pension contributions of all Costa Rican formal workers. 1.25 percent of the total annual payroll of the country's workers stays as deposits on BP's balance sheet for up to 18 months. In addition, 0.25 percent of the

total annual payroll of the country becomes a permanent capital contribution to BP. No other bank in the system has such privileges.

5. **Various distortions and regulatory asymmetries make the playing field uneven between public and private banks in Costa Rica.** The financial sector regulatory environment is complex and asymmetric, with its origin stemming from the legacy laws that haven't been removed or updated to best practices, despite the market liberalization of the past decades. Some can be seen as clearly favoring the public institutions, yet others as burdening them. In the first – favoring – group, the unlimited public guarantee on SOBs' liabilities and the mandate for public enterprises to hold their deposits exclusively with the SOBs create an uneven playing field for private banks. In the second – burdening – group, net income and profit tax transfers/parafiscal charges in SOBs and BP deprive the state treasury from fiscal revenues and propagate selected society groups with the transfer entitlements; furthermore, rigorous public procurement rules applicable to INS and SOBs decrease operational efficiency of their commercial operations vis-à-vis their private competitors.

6. **The long-term vision for the role of the state in the provision of financial services in Costa Rica should be a system (i) free of competitive distortions and (ii) strong on development finance.** Future development of financial system in Costa Rica should not rely on financial repression[1] and instead rely fully on competitive market mechanisms and selected and targeted development finance interventions by the public sector to incentivize private actors. Public development policy mandates should not be *imposed* on the private players; rather, a set of reformed state interventions would nudge but do not coerce the private part of the market. The four key areas of the state's footprint in Costa Rica which require policy solutions are (i) competitive asymmetries/distortions; (ii) SBD; (iii) Banco Popular; and (iv) state ownership of the two largest banks in the system – BN and BCR - and the largest insurer -INS.

7. **Solutions to the wide-spread asymmetries and distortions should be guided by a vision of the financial system operating on a level footing, irrespective of ownership, and on a streamlined relationship between public financial institutions and the state.** Overall, the long-term strategy of the state vis-à-vis its commercial market institutions should be based on (i) the Expectations Notes and achievement of agreed objectives, and (ii) single annual dividend transfer, if applicable, to the treasury.

8. **The ultimate vision for SBD could be to transform itself into a regulated development finance institution (DFI).** A viable solution would be a second tier DFI, fully or partially (jointly with commercial financial institutions) owned by the State and engaged in wholesale finance on both sides of the balance sheet. BANHVI, the second-tier non-profit, well-structured and managed housing finance institution in Costa Rica, could be seen as a precursor to a larger DFI. The new DFI could be created by merging SBD and the development finance parts of SOBs, plus variety of trusts and special

[1] Financial repression occurs when governments take measures to channel to themselves or developmental priorities funds that, in a deregulated market, would go elsewhere.

funds of the government set up for developmental purposes. Financial repression present within the SBD should be eliminated.

9. A plan to bring BP into full competition with other banks and ensure its capital optimization would go a long way towards leveling the playing field in the banking and pension funds management systems. Key parameters of a robust plan would include gradual phasing out of the Pillar II pension transfers that currently support BP's equity and liabilities and converting the current ownership structure into a traditional shareholding structure.

10. There needs to be a critical assessment made of the government's ownership of two universal commercial banks and the largest insurance company. While privatization for its own sake does not imply the best solution and guarantee the best outcome, continuous public ownership needs to be based on evidence of development impact and cost-benefit analysis. The government could consider making the two banks fully commercial and leveling the playing field in the banking sector. The government should also keep an eye on the efficacy of public capital invested in INS. It may consider partial divestment of INS in the medium term. In the meantime, the insurance market should be maintained free and open from competitive distortions. A review of regulatory pricing of insurance products would be in order to ensure that the pricing does not entrench INS' dominance. Finally, the Presidency-based Unit in Charge of SOE Oversight needs to be empowered and equipped with professional capacity to (i) develop public ownership policies, (ii) issue binding Expectations Notes to SOE Boards of Directors, including the state-owned and public financial institutions, and (iii) conduct cost-benefit analysis/other assessments of efficacy and efficiency of public capital invested in the SOEs, including the SOBs.

Key Recommendations

	Recommendation	Responsible Authorities	Time
Competitive asymmetries and distortions			
1	The state's commercial market institutions strategy should be based on (i) the Expectations Notes and achievement of agreed objectives, and (ii) single annual dividend transfer, if applicable, to the treasury.	CONASSIF	MT
2	Government agencies and funds should be funded directly from the national budget.	Hacienda, CONASSIF	MT
Banco Popular			
3	The 1.25 percent transfer of Pillar II pension allocations should be phased out, moving BP into regular liability financing activities.	MEIC, CONASSIF	NT
4	The 0.25 percent transfer to fund BP's capital should be phased-out, moving BP into regular equity-raising activities.	MEIC, CONASSIF	NT
5	Stop the reserves requirement exemption for the minimum regulatory reserve of 15 percent over demand deposits.	MEIC, CONASSIF	
6	BP's public ownership structure should be converted into a traditional shareholding structure.	MEIC, CONASSIF	MT
Sistema Banca para el Desarrollo			
7	The 4-branch opening requirement for private banks for CREDES qualification should be dropped	MEIC, MAG, CONASSIF	NT
8	A maximum limit on private bank deposit transfer should be put at e.g., no more than 10 percent - and only as refinancing of SOBs by private banks at market rate	MEIC, MAG, CONASSIF	NT
9	Transform the SBD into a regulated development financial institution, fully owned by the state, and engaged in wholesale finance on both sides of the balance sheet.	MEIC, MAG, CONASSIF	MT

Note: I (immediate) = within one year; NT (near term) = 1–3 years; MT (medium term) = 3–5 years. CONASSIF (Consejo Nacional de Supervisión del Sistema Financiero), MEIC (Ministerio de Economía, Industria y Comercio), MAG (Ministerio de Agricultura y Ganadería).

THE ROLE OF THE STATE IN COSTA RICA

A. Introduction

11. Costa Rica's financial sector is characterized by a strong public footprint. Total financial sector assets stood at 145 percent of GDP at the end of 2021 (Table 1). The largest sector is the banking sector, which consists of 15 banks that account for almost 60 percent of total financial sector assets. The banking sector is concentrated as the market share of the largest five banks stands at 80 percent. The largest two banks, Banco de Costa Rica and Banco Nacional de Costa Rica, are state-owned commercial banks (SOBs) and account for 44 percent of total banking sector assets.[2] Additionally, there are two public banks created by special laws: a bank collectively owned by Costa Rican citizens (Banco Popular y de Desarrollo Comunal - BP), that is the fourth largest bank accounting for 12 percent of total banking sector assets, and a second-tier housing bank (Banco Hipotecario de la Vivienda - BANVHI). The largest private banks operating in Costa Rica are subsidiaries of Colombian or Canadian banks and only two of the private banks are majority domestically owned. The set of financial intermediaries also includes 6 non-bank credit providers as well as 21 credit and savings cooperatives. Insurance products are offered by 13 insurance companies, while the market continues to be dominated by the state-owned National Insurance Institute (INS), which accounts for 70 percent of total premiums.

Table 1: Financial sector structure

(December 2021)

	Number	Assets		
		CRC billions	% of total	% of GDP
Banks	15	32,156	58.7	84.9
State-owned commercial banks	2	14,219	26.0	37.5
Banks created by special laws	2	4,185	7.6	11.1
*Foreign banks**	9	12,803	23.4	33.8
Domestic private banks	2	950	1.7	2.5
Non-bank credit providers	6	2,080	3.8	5.5
Credit and savings cooperatives	21	4,120	7.5	10.9
Pension fund administrators**	6	10,000	18.3	26.4
Insurance companies***	13	2,580	4.7	6.8
Investment fund companies***	14	3,846	7.0	10.2
Total		**54,782**	**100**	**145**

Note: ** Banks with majority foreign owned equity; ** includes only Operadoras Pensiones Complementarias that manage Pillar II and III. Data as of September 2021, *** Data as of end 2020.*
Source: *SUGEF, SUGEN, SUGEVAL, SUGESE.*

[2] Decomposed as: *Banco de Costa Rica,* 19 percent; and *Banco Nacional de Costa Rica,* 25 percent.

12. The history of the state's footprint in Costa Rica's financial sector goes back a long time, with sector liberalization being a fairly recent phenomenon. Banco de Costa Rica, the first state owned bank was established in 1877. Banco Nacional de Costa Rica and Instituto Nacional de Seguros were established in 1914 and 1922. For many decades since their establishment these financial institutions had monopoly powers in their sectors, supporting an economy dominated by the state. 1995 marks a milestone in the history of banking liberalization that began in the 1980s and is the moment in which the current account deposit monopoly ended. Financial sector history was made, although as it turns out, that was the start of a long journey towards a level-playing, fully competitive market - which is continuing to this day. The 2009 ratification of CAFTA-DR ended the state's monopoly in the insurance sector. In 2008, the System for Development Banking (Sistema Banca para el Desarrollo (SBD)) added an elaborate annex to the financial system focused on development/financial inclusion priorities, particularly for micro and small enterprises of Costa Rica.

B. Functional Assessment

13. While generally there are two broad sets of reasons for public ownership of financial institutions, the current public ownership in Costa Rica is, more than anything, a matter of legacy. Traditionally, the strategic rationale for state interventions in the financial sector focuses on commercial (fiscal revenues) or developmental objectives. In the latter case, publicly owned institutions serve as off-budget instruments for directing finance to development objectives (e.g., economic growth or financial inclusion). National security or industrial policy considerations sometimes play a role, too. In Costa Rica, the history of market liberalization of the insurance sector dates from 2009, which is a relatively short period of time, and in banking, to 1995, when the process begun in the 1980s ended. The liberalized banking sector services market is mature enough for the government to strategically reconsider public ownership in the sector

14. Costa-Rica's state-led economic development model of the past created a sizeable state footprint in the financial sector which continues to this day. The state-dominated economy was historically served by state monopolies in the financial sector. The liberalized, private sector-led economy is now served by a liberalized financial sector – but in the latter, the state's dominance is still very large. The two state-owned banks (SOBs) and the publicly owned Banco Popular together cover over 50 percent of the banking sector by assets, while INS collects more than two-thirds of the total insurance sector premiums. With the inertia of the legacy model and more recent adaptations, the mix of regulations, institutions, and instruments has created a unique development finance framework. The state continues to regulate allocation of a material size of financial system flows – including through developmental mandates on private market participants.

15. The state footprint, from the point of view of public finance and developmental impact, requires thorough and regular reviews and evidence-based assessment for its effectiveness. It does not appear that a rigorous cost-benefit analysis (CBA) or another measurement of efficacy of the state's presence in the equity of financial institutions and in mandatory financing flows has been performed recently, or ever. Over the last few years, the financial performance of public financial institutions has been strong - a positive from the macro-fiscal and public asset management perspective.[3] Both SOBs and INS have clean audit reports, which is positively contrasted to many qualified/negative reports for non-financial SOEs in Costa Rica. However, the strong financial performance has been underpinned by various competitive distortions, especially for Banco Popular which does not even fall under direct state ownership. A CBA of the distortions might help uncover systemic inefficiencies and suggest options for more impactful allocation of public equity capital and incentives. Removal of the distortions (described later in the note) is unlikely to make a big dent in the financial performance of public financial institutions, whereas it would contribute strongly to continuous market liberalization. Financial sector being "fit-for-purpose" for financing the real economy and achieving key public development objectives - contributing to sustainable growth, increasing financial inclusion, all done in a market-friendly way - should be the guiding principle in structuring and performing the effectiveness assessments. Key policy consideration is whether (i) the stock of public investments (equity in SOBs and INS), (ii) the flow of income (profits), and (iii) the funding flows mandated or influenced by regulatory distortions can be directed to investments and funding with higher developmental impact.

C. Financial and Economic Performance

Sistema Banca para el Desarrollo

16. The Costa Rican development banking system administered by SBD was created in 2008 with multipronged objectives, including fostering financial inclusion and enhancing finance to MSMEs and farmers.[4] SBD is comprised of four different funds that are fed by mandatory contributions from private and state-owned banks as well as government transfers:

a. National Fund for Development (*Fondo Nacional para el Desarrollo* - FONADE) accounts for 28 percent of SBD's total available funding, sourced from the government budget and other trusts. This fund is managed by an SBD Governing Council's technical secretariat.
b. Financing Fund for Development (*Fondo de Financiamiento para el Desarrollo* - FOFIDE) represents 11 percent of SBD's total available funding. It is funded by 5 percent of the annual net profits of the SOBs and managed by each bank.
c. Credit Fund for Development (*Fondo de Crédito para el Desarrollo* - FCD) is SBD's largest fund with 39 percent of the total available funding. It is financed by the transfer of 17 percent of private banks' demand-deposits and is managed by SOBs.
d. Credits for Development (*Créditos de Desarrollo* - CREDES) is 22 percent of SBD's total available funding. CREDES is an alternative to the mandatory allocation of 17 percent of private banks'

[3] In the past there have been failures of SOBs, for example in 2017 Banco Crédito Agricola de Cartago was filing when it was taken over by one of the commercial SOBs, or in 1994 when Banco Anglo Costarricense failed.
[4] See Law No. 8634. Art. 4 enumerates the SBD objectives.

demand deposits to FCD - private-owned banks can instead choose to (i) have at least four bank agencies or branches outside *Region Central* and (ii) allocate at least 10 percent of their credit portfolio to SBD target beneficiaries.

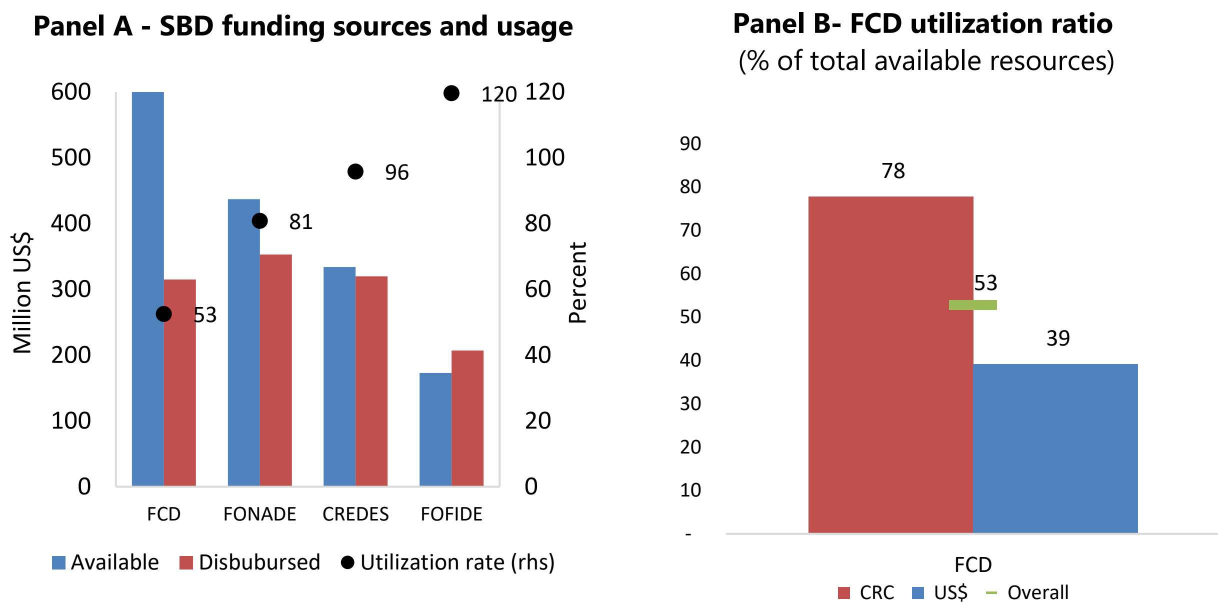
17. While SBD offers financial instruments such as guarantees and seed capital funds, provision of traditional credit makes the bulk of SBD operations. Credit outstanding was 93.4 percent of SBD's total available assets as of end-2021, accounting for roughly 3 percent of total private sector credit and around one-third of total credit to MSMEs. The guarantee fund (F*ondo de Avales*) is the second most important instrument with 5.9 percent of the SBD's assets, followed by the seed capital fund with 0.5 percent, and technical assistance programs with 0.2 percent. The non-credit activities of SBD are financed exclusively by FONADE's funding. *Fondo de Avales* is one of the three partial credit guarantee (PCG) providers in Costa Rica; it remains limited in size compared to PCG providers in the LAC region.[5,6] By the end-2021, the number of guarantees granted by *Fondo de Avales* reached 4,135, with an average coverage rate of 52 percent.[7]

18. Around one-quarter of SBD's available funds are idling, primarily in FCD. Overall, as of December 2021, out of the total available resources of USD 1,544 million, SBD has allocated three-quarters of it, reflecting the limited effectiveness of the system.[8] USD 580 million of the total is available in foreign currency (FX) through FCD, of which only USD 300 million has been allocated for development lending, with the unallocated portion benefiting the state and the rest of SBD (*see* Figure 1: Utilization of SBD funds*Figure 1).* [9] While private banks transfer a substantial part of the 17 percent of their deposits to FCD in FX, SOBs can't place FX credits to the target micro and small firm segments due to their understandable reluctance to take credit risk of unhedged MSMEs. Breaking down by instruments, out of USD 91 million available in the guarantee fund, only USD 32 million (or 35 percent) have been issued to SMEs. Similarly, a negligible share (less than 1 percent) of FONADE's funding has been utilized for seed capital or technical assistance,[10] apparently due to limited awareness of potential beneficiaries about these programs. In fact, according to surveys, more than half of micro-entrepreneurs and around a third of all SMEs have never heard of the SBD.[11]

[5] Other PCG providers are FODEMIPYME Guarantee Fund and FIDEIMAS Guarantee Fund.
[6] See Heinz et al. 2020. Challenges of Public Credit Guarantee Schemes in Latin America during the Pandemic
[7] The current actual coverage rate of 52 percent is significantly lower than the maximum set in the regulation of 75 percent. In the case of natural disasters, the law provides for an increase to 90 percent.
[8] The utilization rate (available over disbursed funding) peaked at 85 percent in mid-2021.
[9] According to the SBD law, not allocated FCD funds should be invested in local government or foreign securities.
[10] Technical assistance resources come from a mandatory allocation of 15 percent of the National Learning Institute' (INA) budget. The low utilization of this resources raises concerns of a potential sub-utilization of INA's original resources. Relatedly, the law 9931 of Jan-21 entered into force modifying INA's structure and practices to strengthen management and increase autonomy to allocate resources to deliver better and more timely services. See Law No. 9931.
[11] See (i) INEC (2018). Encuesta Nacional de Microempresas de los Hogares (Enameh) 2018., and (ii) *Informe sobre el acceso de las micro, pequeñas y medianas unidades productivas, a los servicios financieros, Banco Central de Costa Rica.*

Figure 1: Utilization of SBD funds

FCD is the most important funding source, yet under utilized	***Utilization is particularly low for US$ funds***



Note: *Data as of December 2021*
Source: *SBD*

19. SBD's credit portfolio quality is higher than overall for all commercial banks, albeit near half of the credit operations are channeled through non-supervised financial institutions. SBD funds can be channeled by supervised financial institutions (SOBs, private banks, credit & savings cooperatives, and non-bank credit providers) or those not supervised (farmers cooperatives, microfinance institutions, private non-financial corporates, directly by FONADE) by SUGEF. Supervised institutions represent 57.6 percent of the number of operations or 90.7 percent of total SBD credit outstanding. *Banco BAC San José* and *Banco Nacional de Costa Rica* are the most critical players, capturing 50 percent of the SBD credit outstanding as of end-2021 (see

20.

21.

22. Figure 2 and Table A 1). Non- supervised financial institutions represent a significant share of the number of operations at 42.4 percent but less than 10 percent of the credit outstanding.[12] In addition, more than 80 percent of the non-supervised institutions' credit on-lending is funded by FONADE (see Table A 2). In terms of asset quality, non-supervised financial institutions exhibit higher delinquency loans than supervised counterparts, with an NPL ratio of 4.1 percent vs 2.7 percent, driven by the lower repayment capacity of microfinance institutions' clients and those serviced directly by FONADE. Compared to the credit portfolio of the ecosystem of financial intermediaries (*Sistema Financiero Nacional* - SFN), the SBD overall credit portfolio has historically carried a lower NPL ratio (see Figure A 1).

23. Microfinance institutions and producers' cooperatives on-lend SBD resources at higher interest rates and lower credit sizes compared to banks; overall, interest rates of SBD credit are lower than that of the entire (SFN). The average size of SBD credit operations on-lent by private banks (USD 38,700) is higher than those of other institutions, particularly compared to producers' cooperatives and microfinance institutions where the average size is USD 5,700. The average interest rate offered across banks (SOBs and private banks) is 4.3 percent, and higher in the case of producers' cooperatives and savings & loans cooperatives at 5.7 and 8.7 percent, respectively. Microfinance institutions charge higher interest rates to SBD beneficiaries, at an average of 15.7 percent. The above reflects - among others – their higher credit origination costs and the asymmetric SBD regulatory interest rate caps established for banks and microfinance institutions.[13] In general, these interest rate controls also drive the lower interest rates offered to SBD beneficiaries when compared to banks (state-owned banks at 9.9 percent and private banks at 10.3 percent).[14]

24. SBD credit is mainly focused on men-led micro-enterprises. While at its conception SBD had a clear gender target mandating preferential credit conditions for offsetting gender inequalities,[15] lending data depicts an unbalanced picture. As of end-2021, about 18 percent of the credit outstanding (or 24 percent of the number of operations) were granted to women-led business. (Figure 3, Panel A and Panel B). Yet, SBD women beneficiaries present better financial inclusion outcomes than men (see ¶29). The bulk of SBD credit is channeled to micro and small firms, capturing 73 and 23 percent of the credit outstanding, respectively. A handful of credit operations were allocated to medium firms – 3.6 percent of the total credit outstanding. The latter reflects the SBD's differentiated target segment to MSMEs compared with the SFN.[16] According to the OECD, the SFN allocated 34.2 percent of its outstanding business loans to SMEs as of 2019.[17]

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[12] The producers' cooperative *Leche Dos Pinos* explains more than half of the non-supervised institution credit operations.

[13] See "*Tasas de interés vigentes para los beneficiarios*" at https://www.sbdcr.com/financiamiento/acceso-al-financiamiento/

[14] These rates exclude credit cards. By including credit card loans, SFN interest rates are as follows: state-owned banks 15.4 percent and private banks 30.1 percent. For additional details, see OECD (2020). OECD Economic Surveys: Costa Rica 2020. Boosting Access to Credit and Ensuring Financial Inclusion for All.

[15] See Law 8634, art. 8.

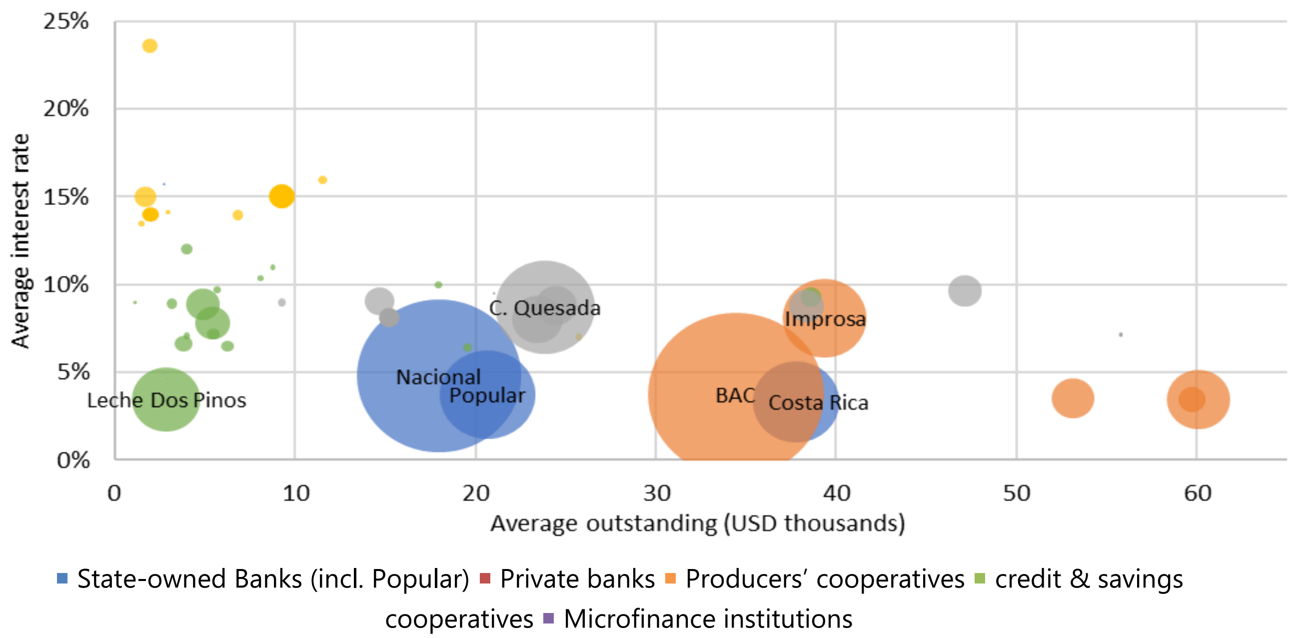
[16] For instance, despite the SBD's size, it granted 45 percent of the total credit granted to micro and small enterprises in 2021and the SFN the rest.

[17] See OECD (2020). OECD Economic Surveys: Costa Rica 2020. Boosting Access to Credit and Ensuring Financial Inclusion for All.

Figure 2 - SBD credit portfolio, average interest rate, credit size and credit allocation

(December 2021)

Microfinance institutions and producers' cooperatives on-lend SBD resources at higher interest rates and lower credit sizes when compared to banks



Source: SUGEF.

Note: Bubble size represents credit outstanding. Labeled financial institutions represent 80 percent of the total credit allocation. For presentation purposes, the y-axis is limited to 25 percent, and the following categories are excluded: Direct FONADE, Private-owned non-financial corporations, and Housing institutions. Data shown in the graph accounts for 97 percent of the total credit outstanding.

25. **Compared to the entire financial system (SFN), SBD credit allocation is significantly less concentrated in the Central Region.** The Central Region refers to the urban agglomeration comprising the Cartago province and a fraction of other provinces of high population density,

including the capital city (San José, Alajuela, and Heredia).[18] Two-thirds of the SBD credit outstanding is allocated to the Central Region, where San José and Alajuela received 45 percent and 11 percent of the total credit outstanding in December 2021 (Figure 3, Panel C), respectively. This compares to 94 percent of SFN credit allocation to the same region.[19] The Huetar Norte region receives 18 percent of the SBD credit portfolio, and the rest is scattered across other regions, none accounting for more than 8 percent of total credit.

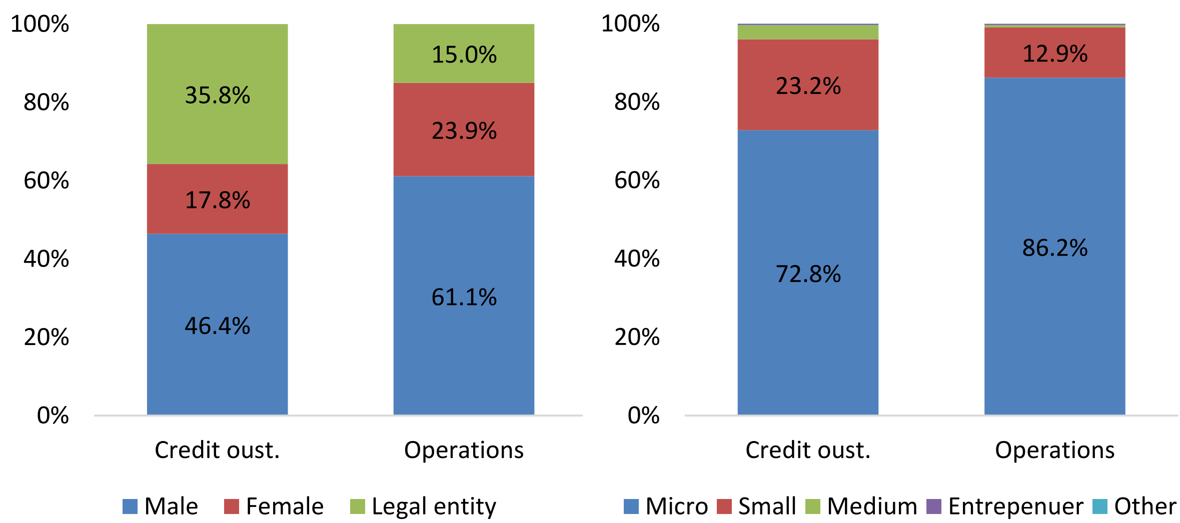
26. Most of the SBD loans are in local currency. SBD credit outstanding in local currency as of December 2021 represented 85 percent of the total (or 95 percent of the number of operations) - significantly higher when compared with the SFN's 64.2 percent.[20] This reflects the prevalence of SBD credit to micro and small enterprises which have lower capacity (and lower risk tolerance to FX loans by their lenders) for FX loans compared to large and medium size business.

Figure 3 - SBD credit portfolio by firm size, gender, and currency

(December 2021)

SBD credit is mainly focused on men-led micro-enterprises in the San José province and in local currency

Panel A – by gender **Panel B – by firm size**

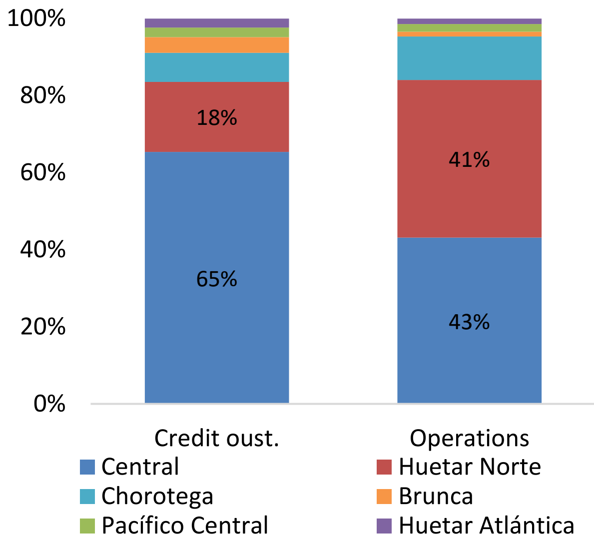


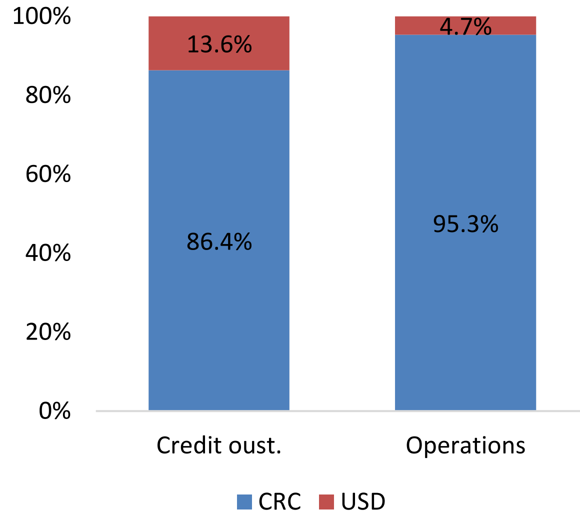
Panel C – by geography **Panel D – by currency**

[18] This analysis considers the 6 socio-economic regions of Costa Rica: Central, Huetar Norte, Chorotega, Brunca, Pacífico Central, and Huetar Atlántica.

[19] See Gráfico 2.1 of *Banco Central de Costa Rica, Informe de Política Monetaria, Enero 2022.*

[20] See: *Banco Central de Costa Rica, Informe de Política Monetaria, Enero 2022.*





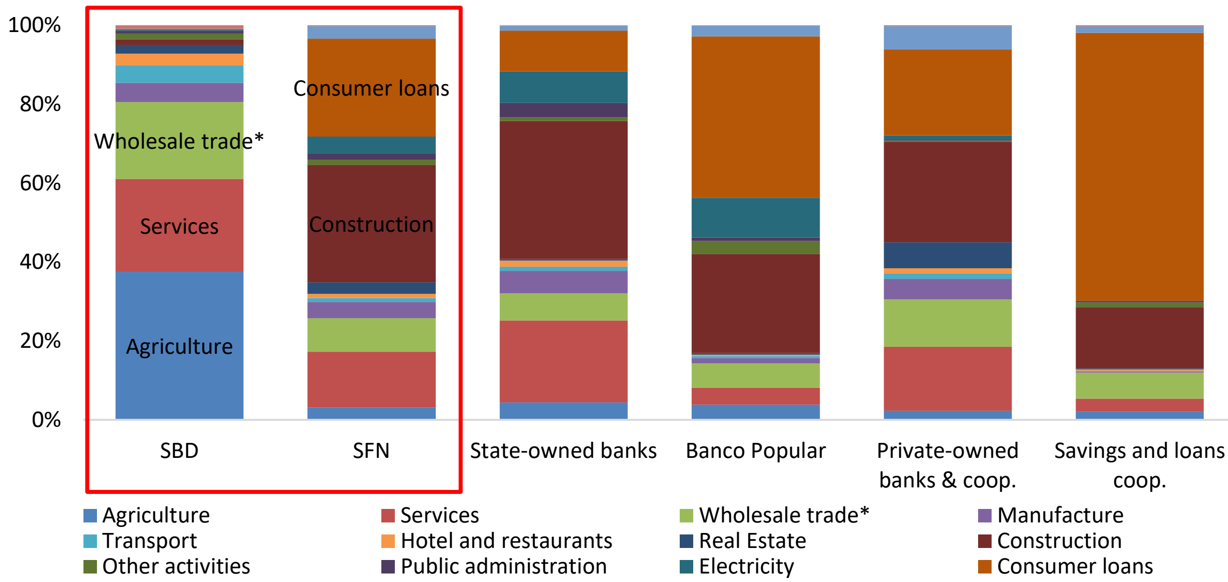
Source: SUGEF.

27. **In contrast to the SFN credit allocation, the most significant sectoral recipients of SBD loans are firms operating in the agriculture sector.** Aligned with targeted beneficiaries of the SBD law, the largest amount of SBD loans is directed to the agriculture sector, capturing 37.5 percent of the total credit. Service activities (23.5 percent) and wholesale and retail trade (19.5 percent) follow. These three sectors accounted for 80 percent of total SBD loans as of December 2021 (Figure 4). None of the remaining sectors account for more than 5 percent of total credit. The sectoral distribution of the SFN's loans is concentrated in consumer, construction, and service sectors and thus differs substantially from SBD, particularly *vis-à-vis* the agriculture and wholesale and retail trade, representing 3.1 percent and 14.2 percent of the total loan portfolio, respectively - suggesting a justification for SBD's mandate to direct credit to these, otherwise underbanked, sector.

Figure 4 - SBD and SFN credit portfolio – sectoral breakdown

(as of Dec-2021)

The largest sectoral recipients of SBD loans are firms operating in the agriculture, service and wholesale and retail trade



Source: SBD and SUGEF.

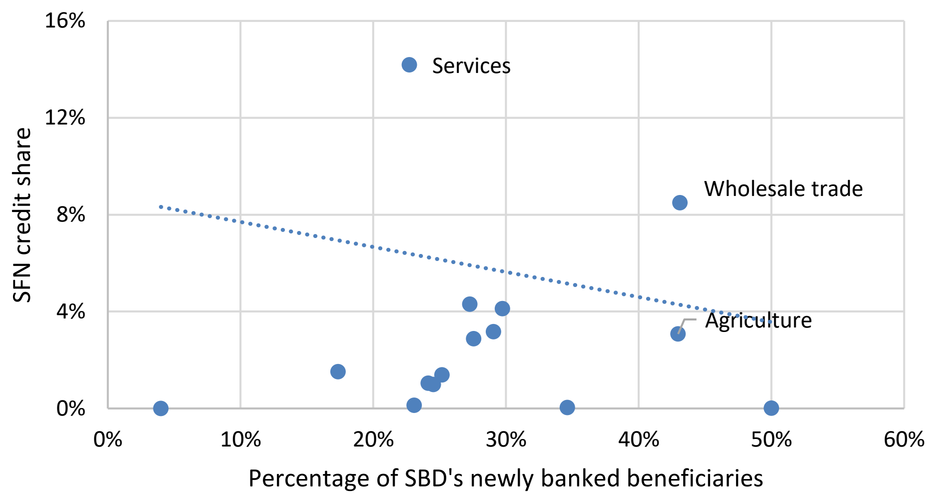
Note: *Wholesale and retail trade.

28. SBD allocated proportionally more credit to firms operating in under-banked economic sectors. This pattern is evident when analyzing the sectoral breakdown of SBD lending vis-à-vis the financial inclusion indicators, as shown in Figure 5. For instance, the SFN allocates 3.1 percent of its total credit portfolio to agriculture, a sector where 43 percent of SBD borrower firms accessed financial services for the first time through the SBD.

Figure 5 – Percentage of financial inclusion

(2008-2021)

SBD has banked underserved economic sectors



Source: SBD
Note: The y-axis is limited to 16 percent for presentation purposes, effectively omitting consumer loans (24.9 percent) and loans to the construction sector (29.7 percent).

29. More than one-third of SBD beneficiaries accessed financial services for the first time. Helping unbanked beneficiaries build a financial background and credit history is a key objective of SBD. Since it started operations in 2008, the system has banked 22,351 clients otherwise un-served by the SFN. Clients accessing financial services for the first time represent 37 percent of all SBD beneficiaries; microfinance institutions served almost half of them (10,521 beneficiaries), followed by producers' cooperatives (4,127 beneficiaries). In terms of geographical distribution, it is worth noting the above-the-average rate of newly banked clients in the underserved Limón province at 57 percent.[21] In the same vein, while women are less financially included than men in Costa Rica (OECD, 2020), and the penetration of SBD credit to women entrepreneurs and women-led businesses seems low at 17.8 percent of the total credit, SBD has banked (i.e., first time user) a significantly higher proportion of women (48 percent) than men (29 percent, see Table A 3).

30. SBD also played a role in containing the COVID 19-induced market swing by promoting further access to credit for MSMEs. In the wake of the pandemic, SBD introduced several policy measures to contain economic and financial impacts, including among others moratoria on loan repayment, a dedicated credit line for working capital financing, and capital injection to FONADE's credit guarantee scheme (PCG) in the amount of USD 17 million (0.03 percent of GDP).[22] The size of the borrower support measure deployed through this PCG was, however, limited compared to earlier ambitions and peer countries in the LAC region.[23] The Government of Costa Rica introduced a PCG bill in 2020, with an expected capitalization of the insurance scheme of around USD 430 million and

[21] See OECD (2020), page 111 for a map on the regional disparities in financial inclusion in Costa Rica.
[22] For additional details, see: https://www.sbdcr.com/sbd-actua-en-apoyo-a-las-mipymes-y-productores-afectados-por-la-crisis-de-la-covid-19/
[23] Heinz, Diaz and Miguel (2020) surveyed a set of PCGs in the LAC region showing that Peru and Chile granted guarantees equivalent to 7.4 and 4.5 of GDP in the context of the COVID-19 Pandemic. The median sat at 1.2 percent of the GDP in a sample of 9 countries.

expected leverage of 10x which would have served around 20 percent of firms. The bill did not pass congress.[24]

31. Overall, SBD has been a good transitory system for development finance but should continue its evolution into a better-optimized structure. It has important positive aspects, such as the guarantee fund and the entrepreneurship development network, as well as its targeting of the underbanked part of the MSME universe. However, funding flow wise, the system seems unnecessarily complex and too operationally dependent on inflexible laws and public banks. It also maintains an element of financial repression (the imposition on private banks to make transfers to SOBs or to do directed lending at capped interest rates), masking deeper structural issues. The FCD is the most questionable component of SBD. It is built on financial repression (the 17 percent deposit transfer from private to SOBs at below market cost) and is not being used efficiently, with a large share of the transferred funds idling and being used to finance the government instead of the targeted MSMEs (which also perversely benefits the SBD governing organization which receives share of interest paid by the government on this financing).

Banco Popular

32. Banco Popular y de Desarrollo Comunal (BP) is the fourth largest bank by assets, maintaining a stable market share and credit growth similar to commercial peers. Its total assets stood at the equivalent to 11 percent of GDP, with a roughly constant market share in the banking sector at 14 percent since 2008. In contrast, the combined market share of the two SOBs shrunk from 49 percent in January 2014 to 40 percent in December 2021.[25] BP's credit growth averaged 9.4 percent year-on-year over the last ten years, compared to 8.1 percent in the case of SOBs and 11 percent for private banks, exhibiting less pro-cyclical behavior during COVID 19.

33. Asset decomposition of BP resembles the SFN's but with a lower share of high liquidity holdings. As of end-2021, loans made 60 percent of BP's assets, in line with the SFN average of 57 percent (state-owned banks 52 percent and private banks 61 percent; Figure 7). Two thirds of the BP credit are tilted towards individuals (*personas físicas*) by means of consumer and housing loans. The size of BP's consumer loan portfolio at around 40 percent is larger than in SOBs and private banks but lower than in credit and savings cooperatives (67 percent). The remaining one third of BP's credit portfolio is decomposed as follows: 22.2 percent to non-financial corporates, 8 percent to financial corporates, 3 percent to the public sector, and 1 percent is channeled to the SBD (Figure A2).[26] In terms of investments, the share of assets BP allocates in securities (27 percent) is similar to SOBs and lower than private banks. About one half of the bank's investments into securities, or 13 percent of total assets, are in government papers. BP's highly liquid holdings (6 percent) are lower than SFN's

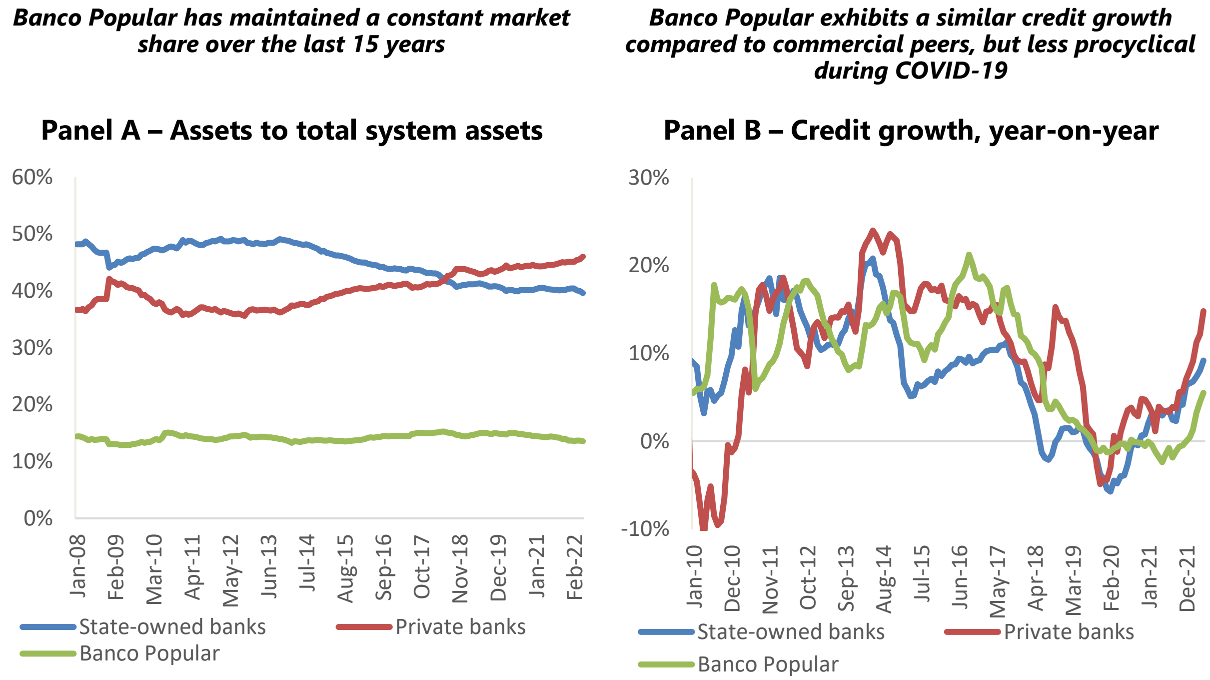
[24] Additional details here https://www.presidencia.go.cr/comunicados/2020/08/fondo-de-avales-y-garantias-atenderia-necesidades-crediticias-de-unas-18-000-empresas/

[25] Mostly driven by Banco Nacional de Costa Rica, which reduced its market share from 33 percent to 24 percent over the same period.

[26] See the economic sector decomposition of *Banco Popular* in Figure 4 vis-à-vis SFN.

average (15 percent) - a result of guaranteed annual cashflows of Costa Rican pension savings to BP, a highly uncompetitive practice within SFN.

Figure 6 – Banco Popular, credit share and growth



Source: SUGEF

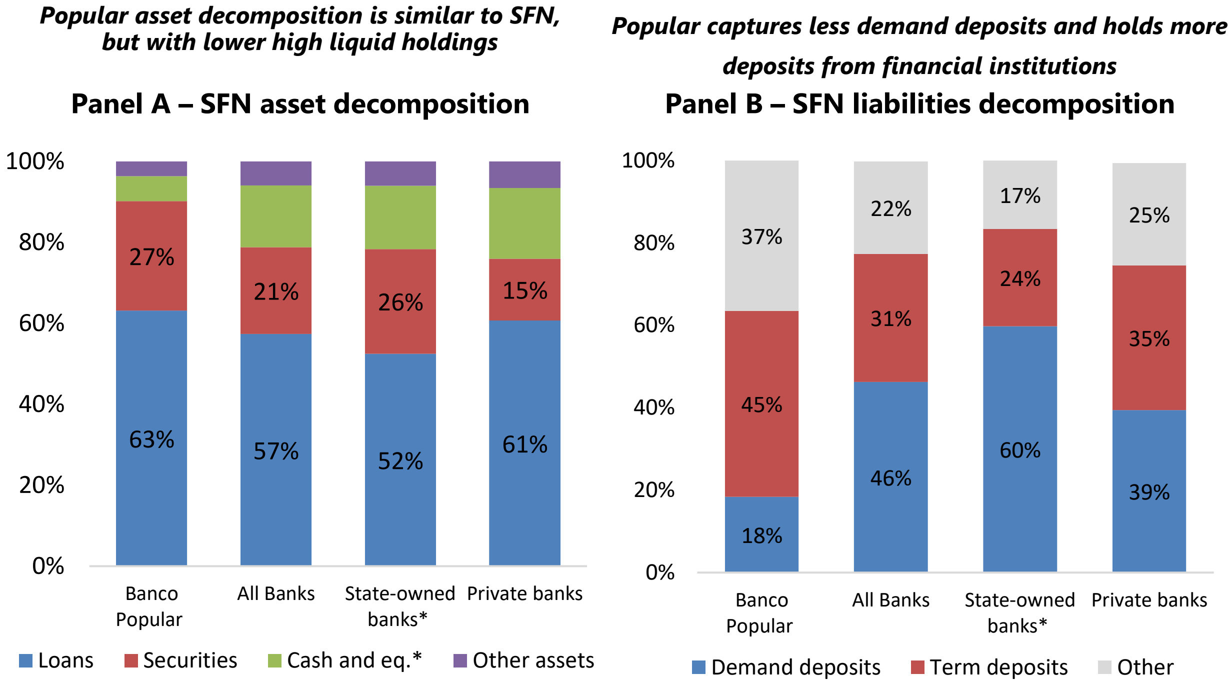
34. BP's business model for funding its capital and liabilities is based on uncompetitive practices. The model is materially reliant on the transfers of Pillar II pension savings of all Costa Rican workers. Pension savings--in the amount of 1.25 percent of the total annual payroll of the country's workers—flow into BP as deposits for up to 18 months.[27] BP's funding model also benefits from the regulation which requires BP to only hold minimum regulatory reserves for demand deposits, while all other types of its deposits are exempt, creating incentives to BP to classify deposits in a way that eludes the reserve requirement. As a consequence, BP holds 2.5 times more term deposits than demand deposits, contrary to the average of the SFN which holds a higher share of demand deposits (See Figure 7). In addition, the annual flow to BP of 0.25 percent of the total annual payroll of the country becomes a permanent capital contribution to BP. It is also the only bank which is allowed to deduct payrolls of its customers on priority basis in case of loan servicing delinquencies, which also seems to entice riskier lending behavior than would otherwise be prudent.[28] No other bank in the system has such privileges.

[27] A recent regulatory change requires Banco Popular to pay interest (TPM + 160bps) on those funds albeit at well below market interest rates. Accrued interest is capitalized and transferred to the pension account of employees at the chosen pension fund manager at the end of the 18-month period of the BP's balance sheet pass-through.

[28] The maximum debt-to-income ratio used by BP in the credit underwriting process of up to 80 percent exceeds that of most other financial institutions.

Figure 7 – Banco Popular – Assets and liabilities decomposition

(December 2021)



Source: SUGEF
Note: Cash and eq. stands for cash and cash equivalents. The most important components of this category are cash and Central high liquid holdings.

35. As a result of the privileges (especially the annual effortless capital inflows) and its unique capital ownership arrangement, BP has the largest capital among all banks, in nominal terms (USD 1.24 billion in May 2022), arguably leading to capital inefficiencies. There do not seem to be sufficient growth opportunities for BP to leverage its strong - and automatically growing - nominal capital which receives new and ever higher annual contributions,[29] in line with the growth of the total national payroll. Furthermore, BP's ownership mechanism could best be described as community-based – it is formally owned by all workers of Costa Rica while BP's governance (akin to a company's supervisory council) is performed by 10 unions and organizations representing the workers. BP's capital is unitary and there is no traditional shareholding. Unlike a private entity with clear ownership, there is no direct mechanism for BP to reduce its capital to an optimally efficient level as the annual capital contributions are set in law and therefore automatic, whereas BP cannot distribute profits due to its peculiar public ownership structure.

36. Banco Popular presents generally sound financial soundness indicators. The bank's non-performing loans are low at 2.6 percent as of December 2021, exhibiting a downward trend after peaking at 3.9 percent during the COVID period. Compared to its peers, BP's NPLs are at the mid-point between the levels at SOBs and private banks. BP is profitable – measured by return on equity

[29] E.g., in 2021 BP received US$45.7m of new capital (*aportes patrimoniales*) compared with 2020, mostly from the annual 0.25 percent flows. In contrast, the SFN (excluding BP) received US$19.58m over the same period.

– presenting metrics similar to SOBs, albeit substantially lower than private banks. It has a strong capital base and high CAR.

D. Operational Environment

37. Various distortions and regulatory asymmetries make the playing field uneven between public and private banks in Costa Rica. The financial sector regulatory environment is complex and asymmetric, with its origin stemming from the legacy laws that have not been removed or updated to best practices, despite the market liberalization of the past decades. Some can be seen as clearly favoring the public institutions, yet others as burdening them.

38. The unlimited public guarantee on SOBs' liabilities and the mandate for public enterprises to hold their deposits exclusively with the SOBs creates an uneven playing field for private banks. The unavailability of public enterprise deposits in particular pushes private banks out of CRC funding and into FX business/dollarization direction, creating financial stability issues. This legal provision also prevents public institutions to shop around the financial system for best offers on their financial management needs, including higher return on their deposits from other financial institutions. The extensive unlimited public guarantee on SOBs' liabilities is another legacy from the past, when social contract between the state and the public meant the state taking full liability for its monopoly in the banking system.[30] Implications for SOBs include a lower funding cost in CRC as depositors are willing to receive lower returns, given that the totality of their savings in SOBs (above the standard deposit insurance level applicable to the banking system) are government-backed, leading to a lower interest rate offering for loans.[31]

39. Other legal provisions provide exclusive benefits to BP such as privileges for payroll deductions and exemptions from taxes and reserve requirements. This comes in addition to the BP funding model privileges described earlier. Only BP can apply automatic payroll deductions to their clients for loan servicing, effectively reducing the credit risk of their loan portfolio. All deposits at SOBs and private banks are subject to a regulatory minimum reserve of 15 percent; in contrast, this regulatory reserve applies only to demand deposits (*cuentas corrientes*) for BP.

40. On the other hand, some of the distortions do not work in favor of SOB's, nor for the MOF treasury's financial management. For example, multiple mandated net income and profit tax transfers/parafiscal charges in SOBs and BP have created entitlement for the recipients of these transfers. They also deprive the national treasury from a substantial amount of tax revenues. Most, if not all, of the earmarked transfers (parafiscal charges) are enshrined in different laws and are therefore difficult to change or eliminate. Changes in the laws would require decision of the parliament, with

[30] The contingent liability of this sovereign guarantee materialized when Banco Anglo Costarricence (2017) and Banco Crédito Agricola de Cartago (1994) went bankrupt.

[31] In fact, the average interest rate that SOBs charge to SMEs is 15.4 percent, which is 14.7 percentage points lower than private banks (OECD, 2020).

political economy issues emanating from the process. Furthermore, public procurement rules applicable to INS and SOBs decrease operational efficiency of their commercial operations vis-à-vis their private competitors. Unlike policymaking institutions (e.g., ministries) and non-commercial public agencies, state-owned financial institutions compete in open market with private players; the burden of stringent public procurement rules impinges on their operational competitiveness. See Table 2 for a summary of the competitive asymmetries and legal references.

Table 2: Competitive asymmetries

	State-owned banks	**Private Banks**	**Banco Popular**
a. Sovereign guarantee[32]	Yes	No	No
b. Deposits from state-owned enterprises	Yes	No	No
c. Income tax	30%	30%	30%
d. Income tax over interest paid.	8%	8%	9%[33]
e. Minimum regulatory reserve requirement	15%	15%	15% over demand deposits only[34]
f. Other regulatory reserves	50%	10%	Not applicable[35]
g. Bank toll (FDC)	Not applicable	17%	Not applicable
h. Payroll deductions	No	No	Yes
i. Administrative contracting law	Applicable	Not applicable	Applicable
Para-fiscal contributions[36]	**38%**	**5%**	**33%**
Financing Fund for Development (FOFIDE)	5%	Not applicable	5%
CONAPE	5%	5%	5%
CNE	3%	Not applicable	3%
INFOCOOP	10%	Not applicable	Not applicable
FODEMIPYME	Not applicable	Not applicable	5% + 9 billion CRC
FONDOS ESPECIALES	Not applicable	Not applicable	15%

[32] The sovereign guarantee to depositors and holders of government securities is governed by Article 4 of the *Ley Organica del Sistema Bancario Nacional*, which applies to state-owned commercial banks only.
[33] In accordance with the Law for the Strengthening of Public Finances No. 963, it is increased by one percentage point annually to 15%.
[34] SOBs and private banks' deposits are subject to a minimum regulatory reserve requirement of 15 percent. In the case of Banco Popular, this regulatory reserve applies to its demand deposits only – see Article 63 of the Central Bank Organic Law.
[35] Banco Popular does not have additional regulatory reserve requirements apart from the minimum regulatory reserve. In contrast, SOBs must maintain a regulatory reserve of 50 percent and private banks 10 percent of their net profits for (among others) amortizing buildings, and investments and credits write-offs.
[36] Parafiscal contributions are charged to banks' profits for financing state-owned enterprises-led programs (e.g., education, MSMEs, national emergencies).

New contributions to social security IVM[37]	15%	Not applicable	Not applicable

Source: Team's elaboration based on *Academia Centroamericana (2018) Asimetrías Regulatorias en el Sistema Financiero Costarricense.*

E. Forward View and Recommendations

41. The long-term vision for the role of the state in the provision of financial services in Costa Rica should be a system (i) free of competitive distortions and (ii) strong on development finance. The current performance of the financial sector in Costa Rica has potential for optimization and higher efficiency, especially seen through the lens of developmental impact and state's footprint. The future development of the financial system in Costa Rica should not rely on financial repression[38] and instead rely fully on (i) competitive market mechanisms and (ii) selected and targeted development finance interventions by the public sector to incentivize private actors. These directions should be underpinned by transparent flows of public finance for development purposes and institutions and instruments fit-for-purpose and free of financial repression. Public development policy mandates should not be *imposed* on the private players; rather, a set of reformed state interventions would nudge but do not coerce the private part of the market. The following paragraphs provide ideas and options on how the vision can be achieved by focusing on the four key areas of the state's footprint in Costa Rica. These are (i) competitive asymmetries/distortions; (ii) SBD; (iii) Banco Popular; and (iv) state ownership of two largest banks in the system – BN and BCR - and the largest insurer -INS.

Competitive asymmetries

42. Solutions to the wide-spread asymmetries and distortions should be guided by a vision of the financial system operating on a level footing, irrespective of ownership, and on a streamlined relationship between public financial institutions and the state. Public entities should be able to shop around the financial system for best offers for their financial management needs, and SOBs and private banks should compete for their business on equal terms. With the new deposit guarantee system, the legacy public guarantee on SOBs' liabilities can be removed without any monetary or financial stability impact, given the current soundness of those banks. Profit distribution rules for the state-owned financial institutions should be unified, with dividend decisions left to their boards of directors (BoDs) to make, based on the financial performance of each institution and strategy. Similarly, procurement rules for state-owned financial institutions should be adopted by their BoDs and should be fit for a competitive commercial environment. Overall, the long-term strategy of the state vis-à-vis its commercial market institutions should be based on (i) the

[37]On May 22, 2018, the Legislative Assembly approved a bill to strengthen the Pension Regime for Disability, Old Age, and Death (IVM) of the Costa Rican Social Security Fund through a contribution of 15 percent of the net profits of public companies including state commercial banks.

[38] Financial repression occurs when governments take measures to channel to themselves or developmental priorities funds that, in a deregulated market, would go elsewhere.

Expectations Notes[39] and achievement of agreed objectives, and (ii) single annual dividend transfer, if applicable, to the treasury. Government agencies and funds, which are currently funded by earmarked para-fiscal contributions from the public financial institutions should be funded directly from the national budget for transparency and efficiency reasons, with annual allocations as part of the regular fiscal budgeting process.

Sistema Banca de Desarrollo

43. The ultimate vision for SBD could be to transform itself into a regulated development finance institution (DFI). There are multiple global and OECD examples of DFIs. A viable solution would be a second tier DFI, fully or partially (jointly with commercial financial institutions) owned by the State and engaged in wholesale finance on both sides of the balance sheet. Wholesale finance would presume, among other things, no retail deposits; funding through bond issuance and institutional credit lines; on the asset side, credit lines to last-mile lenders, investments in development-focused securities; and guarantees issued to financial institutions on portfolio basis. BANHVI, the second-tier housing finance institution in Costa Rica, could be seen as a precursor to a larger DFI. The new DFI could be created by merging SBD and the development finance parts of SOBs, plus variety of trusts and special funds of the government set up for developmental purposes.

44. In the meantime, the priority should be to start eliminating financial repression present within the SBD. This would entail the following: (i) the 4-branch opening requirement for private banks to qualify for CREDES should be dropped; (ii) a maximum limit on private bank deposit transfer to SBD should, as an interim step, be put at e.g., no more than 10 percent - and only as refinancing of SOBs by private banks at market rate when SOBs demonstrate by evidence that they have placed qualifying development credits.

Banco Popular

45. A plan to bring BP into full competition with other banks and ensure its capital optimization would go a long way towards leveling the playing field in the banking and pension funds management systems. Key parameters of a robust plan would include three features: (i) the 1.25 percent transfer of Pillar II pension allocations would be phased-out (e.g. gradually reduced by at least a fifth (0.25 percent) each year), moving BP into regular liability financing activities; (ii) the 0.25 percent transfer to fund BP's capital would be phased-out (e.g. reduced by at least a fifth (0.05 percent) each year), moving BP into regular equity raising activities; and (iii) BP's public ownership structure would be converted into a traditional shareholding structure, with BP's shares distributed to the participating workers' associations or the state. These changes would enable (i) BP shareholders' ability to trade their shares, (ii) BP to distribute dividends, and (iii) a gradual transition of BP into regular capital and liability-raising activities. Privileges for payroll deductions and exemptions from reserve

[39] Expectations Notes, recommended by OECD, are annual memorandums of understanding between the government and state-owned commercial entities, setting up government's expectations and performance targets for the BoDs and management of the SOEs, including financial institutions. In Costa Rica, the Expectation Notes are being prepared, on a non-mandatory basis, by the Presidency-based unit in charge of state ownership of SOEs. Ideally, the Notes should become mandatory as soon as possible.

requirements should be ended immediately. The impact of the reduced pensions savings flows to BP would be that each annual reduction would immediately start going into the Pillar II pension fund selected by a worker. In the meantime, SUPEN, the pensions regulator, should ensure as soon as feasible a very transparent right of choice of a Pillar II pension fund manager by all employees. This would require to regularly inform all Costa Rican workers about their right of choice/change, and particularly focus on new labor market entrants by eliminating a nearly-default option for BP's Pillar II pension fund manager.

State ownership of two largest banks in the system and INS

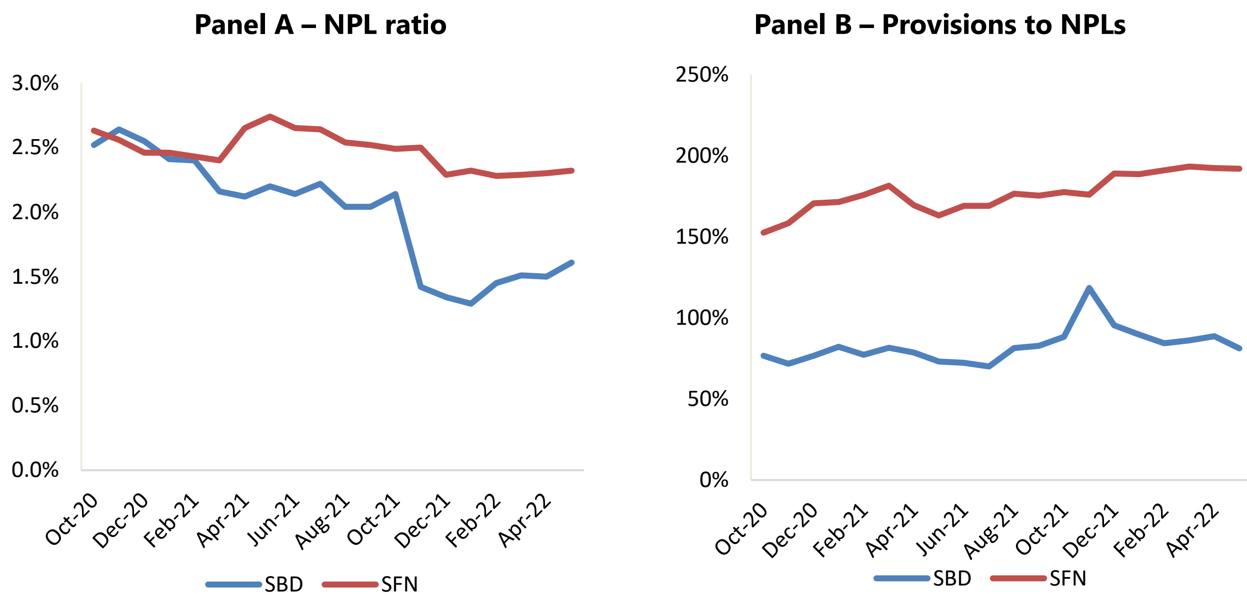
46. There needs to be a critical assessment of the government's ownership of the two universal commercial banks – Banco Nacional and Banco Costa Rica - with no unique strategies in a competitive market despite their long history of state ownership. Fiscal income from dividends of a commercial enterprise on its own is not a viable argument for public ownership. Nor is privatization for its own sake. Public ownership needs to be based on evidence of development impact and cost-benefit analysis. It could be argued that the state equity currently invested in SOBs could deliver stronger developmental impact if used in more development-focused programs or institutions. The current level of equity in the two SOBs – book value around US$2 billion, market value potentially higher due to their market positions and franchise values – could presumably be invested in better-targeted long-term development activities. Mobilizing that equity through (partial/full) divestment should be accompanied by a careful consideration of options for the allocation of proceeds including funding of development finance activities - ideally through a public DFI. In any case, with or without divestments, going forward the government could consider making the two banks fully commercial, leveling the playing field in the banking sector by addressing the existing distortions and asymmetries. Besides observations provided earlier in this note, it would also require a carve-out of development focused/public policy operations in SOBs and moving them to the DFI if/once the latter is set up as a result of the reform of the SBD. Minority divestments could also be considered, for the purposes of market listing, share trading, and market value discovery (and upgrading the know-how in case of a minority institutional divestment to a global bank). Finally, and importantly, the Presidency-based Unit in Charge of SOE Oversight needs to be empowered and equipped with professional capacity to (i) develop public ownership policies, (ii) issue binding Expectations Notes to SOEs' BoDs, including the state-owned and public financial institutions, and (iii) conduct cost-benefit analysis/other assessments of efficacy and efficiency of public capital invested in the SOEs, including the SOBs.

47. The government should also keep an eye on the efficacy of public capital invested in INS. Competitiveness in the market for the benefit of consumers and the economy at large should also feature in the considerations. The Costa Rican insurance market has been in transition for the past 13 years from full state monopoly by INS, with private insurers gaining around a third of the total market, and higher shares in individual segments and products. Given the still dominant market share of INS there is no immediate rationale to privatize it. Even if there was a private buyer, creating a dominant private player of this size may not contribute to market development. However, the government may consider partial divestment of INS in the medium term, through a combination of share floating and attracting a qualified investor (e.g., a global insurance company) as a minority shareholder – to benefit from global know-how, especially given INS' regional expansion ambitions and establish market discipline and transparency. In the meantime, the market should be maintained free and open from competitive distortions. A review of regulatory pricing of insurance products may be in order to ensure that the pricing does not entrench INS' dominance. Product pricing rules should allow and encourage entry of private insurers in product lines historically – and currently – dominated by INS, including workers' comp and mandatory auto insurance. INS should also be protected from political interference and being seen as a quasi-fiscal pool of funds. Ultimately its relationship with the state should move to (i) achievement of results agreed in the Expectations Note and (ii) annual dividends transfer as decided by INS' BoD.

Annex

Figures

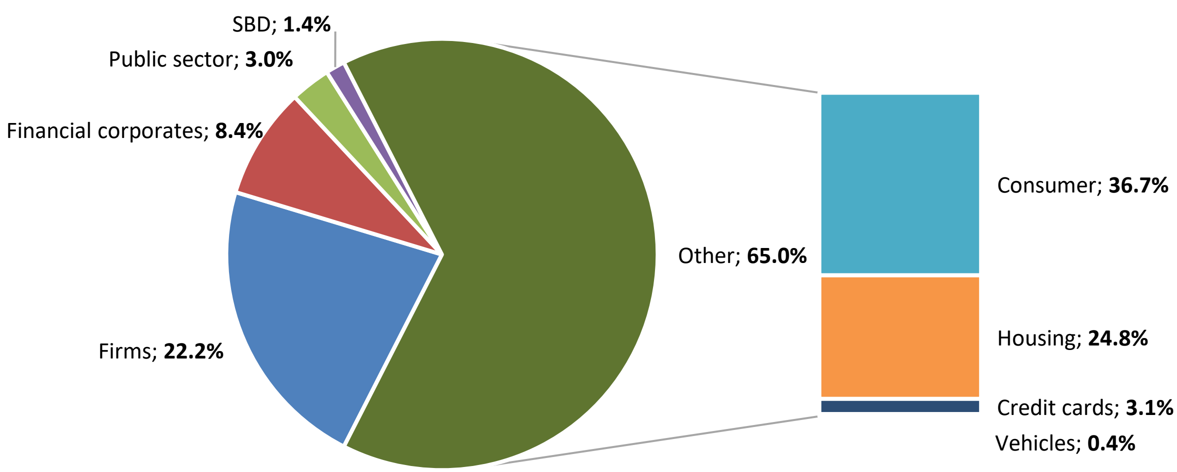
Figure A 1 – NPLs and provisioning, SBD vs. SFN



Source: SBD.

Note: Panel A, NPLs figures for SBD differs from those presented in Table A 1 and Table A 2, as the denominator of the NPL ratio presented here includes loans and investments, while the tables consider loans only.

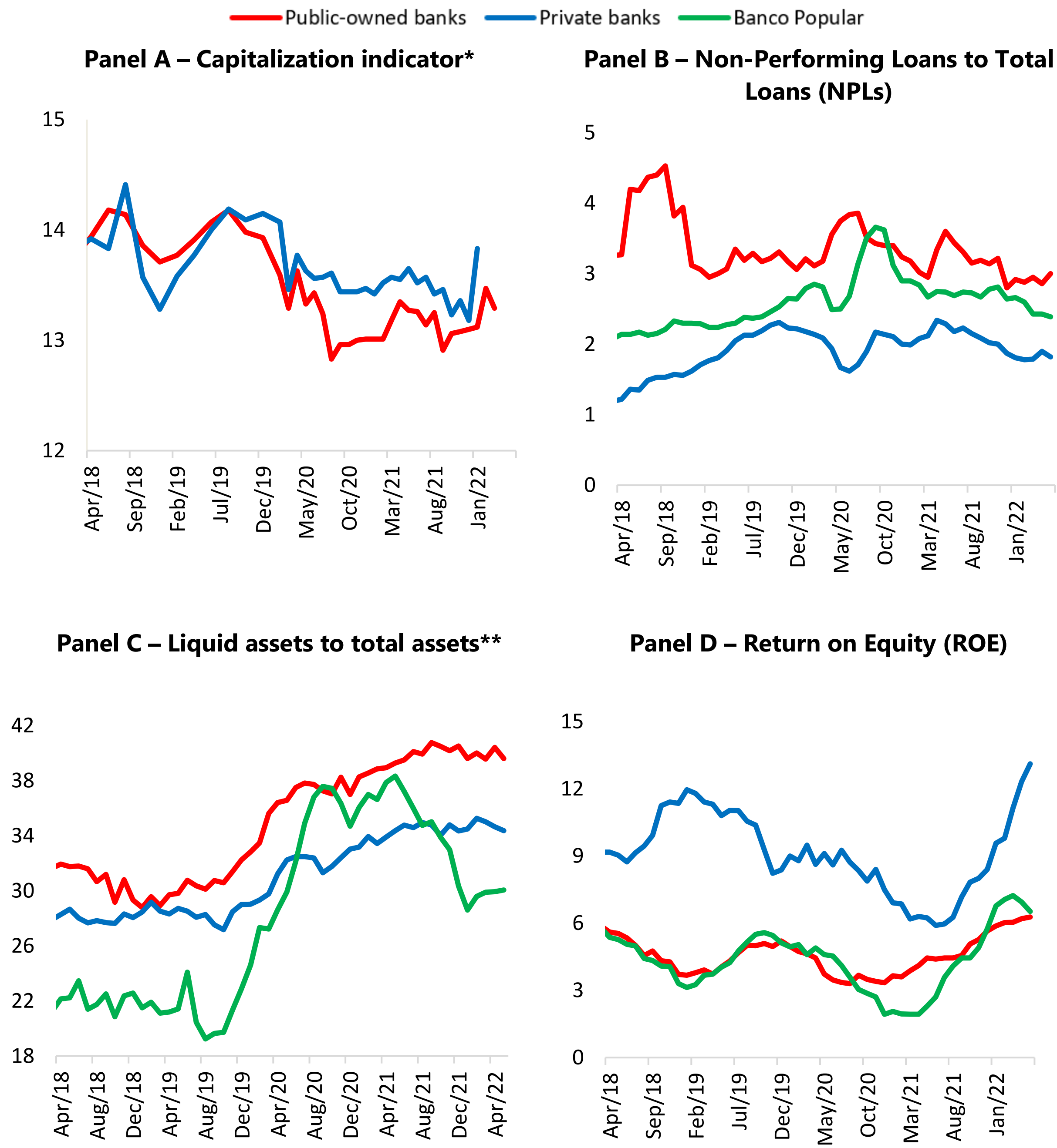
Figure A 2 - Recipients of Banco Popular loans



Source: SUGEF

Figure A 3- Selected Financial Soundness Indicators

(percentage)



Source: SUGEF
Note: *For the capitalization we use the regulatory indicator: suficiencia patrimonial, which is differs from the standard measure (capital to risk-weighted assets) by additionally accounting for risk-weighted contingent liabilities and capital requirements in the denominator. Publicly available information does not allow to breakdown further the capitalization indicator. **Measured as (disponibilidades + inversiones en instrumentos financieros) / total activos.

Tables

Table A 1 - SBD credit portfolio by type of institutions

(as of Dec-2021)

	Number of operations		Credit outstanding		NPLs to total loans
	Value	Share	Value *(USD mln)*	Share	
Supervised	**29,469**	**57.6%**	**769**	**90.7%**	**2.7%**
State-owned banks*	14,981	29.3%	306	36.1%	3.8%
Private banks	8,341	16.3%	312	36.8%	1.9%
Credit & savings coop.	5,219	10.2%	126	14.8%	2.3%
Housing finance inst. and others	928	1.8%	25	3.0%	1.0%
Not supervised	**21,717**	**42.4%**	**79**	**9.3%**	**4.1%**
Producers' cooperatives	16,607	32.4%	61	7.2%	0.6%
Microfinance institutions	4,873	9.5%	14	1.7%	9.5%
Direct FONADE	173	0.3%	2	0.3%	64.8%
Private financial corporations	64	0.1%	1	0.1%	0.0%
Total	**51,186**	**100.0%**	**848**	**100.0%**	**2.8%**

Source: SUGEF.

Note: *Includes Banco Popular y de Desarrollo Comunal.

Table A 2 - SBD credit portfolio by funds

(as of Dec-2021)

Panel A – Supervised vs. non-supervised

	Number of operations	Credit outstanding		NPLs to total loans
		Value (USD mln)	Share	
FONADE	**14,635**	**247**	**29.2%**	**3.8%**
Supervised	7,834	212	25.0%	3.0%
Non-supervised	6,801	35	4.2%	8.2%
FOFIDE	**7,838**	**197**	**23.2%**	**2.0%**
Supervised	7,745	196	23.1%	1.9%
Non-supervised	93	1	0.1%	10.7%
FCD	**6,807**	**69**	**8.1%**	**3.6%**
Supervised	4,641	62	7.3%	3.9%
Non-supervised	2,166	7	0.8%	0.4%
CREDES (59ii)	**20,534**	**318**	**37.6%**	**1.8%**
Supervised	7,895	283	33.4%	2.0%
Non-supervised	12,639	36	4.2%	0.5%
PROPIOS	**1,372**	**17**	**2.0%**	**15.1%**
Supervised	1,354	16	1.9%	15.3%
Non-supervised	18	0	0.0%	8.3%
Total	**51,186**	**848**	**100.0%**	**2.8%**

Panel B – 1st vs. 2nd floor lending

	Number of operations	Credit outstanding Value (USD mln)	Credit outstanding Share	NPLs to total loans
FONADE	**14,635**	**247**	**29.2%**	**3.8%**
1st floor	173	2	0.3%	64.8%
2nd floor	14,462	245	28.9%	3.2%
FOFIDE	**7,838**	**197**	**23.2%**	**2.0%**
1st floor	7,083	176	20.7%	2.0%
2nd floor	755	21	2.5%	1.3%
FCD	**6,807**	**69**	**8.1%**	**3.6%**
1st floor	3,957	48	5.7%	5.0%
2nd floor	2,850	21	2.5%	0.3%
CREDES (59ii)	**20,534**	**318**	**37.6%**	**1.8%**
1st floor	7,306	271	32.0%	2.1%
2nd floor	13,228	47	5.6%	0.5%
PROPIOS	**1,372**	**17**	**2.0%**	**15.1%**
1st floor	1,372	17	2.0%	15.1%
Total	**51,186**	**848**	**100.0%**	**2.8%**

Source: SUGEF.

Table A 3 – Percentage of SBD newly banked beneficiaries

(Full period)

By type of institution		By province		By gender	
Microfinance institutions	58%	Limón	57%	Female	48%
Direct FONADE	52%	Alajuela	38%	Legal entity	37%
Producers' cooperatives	45%	San José	36%	Male	29%
Private-owned financial corp.	28%	Cartago	34%		
Private-owned banks	26%	Puntarenas	30%		
Banco Popular	26%	Heredia	29%		
Housing finance institutions	25%	Guanacaste	25%		
Non-bank financial institutions	19%				
State-owned banks	18%				
Credit & savings cooperatives	14%				

Source: SBD