

Integral Reform of the Law on the Banking System for Development

Last November, the Legislative Assembly of Costa Rica adopted Act 9274, overhauling the earlier Act 8634 regulating what is known as the “Banking System for Development” (“Sistema de Banca para el Desarrollo”). The main objective of the reform is to encourage more funding for feasible, profitable projects, in line with the country’s development model.

The act includes definitions of the system’s goals, its beneficiaries, and its regulatory supervisors (the Consejo Rector and the Technical Secretariat). It also identifies three sources of funding for the system:

Fideicomiso Nacional para el Desarrollo, administered by a public bank following instructions from the Consejo Rector.

Fondo de Financiamiento para el Desarrollo, a fund for financing development. Each bank must have its own fund, administered by the banks themselves.

Fondo de Crédito para el Desarrollo, a fund for providing development credit. Set up with contributions from all the Costa-Rican banks, it is administered by a public bank (more specifications laid down in the law’s subsequent implementing regulations). The Consejo Rector will indicate to private-sector banks what percentage they must transfer to the administering bank by way of contributions to this fund.

Previously, the legislation did not specifically regulate the microcredit industry, so what is new in this law is its explicit recognition of microcredit’s importance for inclusion and development.

The act also deals with the regulation of the following aspects:

It defines microcredit borrowers as subject to the regulations of the Banking System for Development;

Projects funded by microfinancial entities through microcredit will be given priority treatment.

It encourages the simplification of information requirements in credit dossiers.

It establishes schemes specifically to help small and micro businesses to flourish: the special fund for the development of MSMEs (Fodemipyme) and a support programme for SMEs (Propyme), to finance activities promoting and improving management and entrepreneurial skills. It also obliges the National Apprenticeship Institute (Instituto Nacional de Aprendizaje) to contribute 15% of its budget to financial-education programmes providing technical assistance and training and skill-building programmes.

Costa Rica’s government is making an outstanding effort to promote a framework for robust growth of the microfinance industry by strengthening the Banking for Development System. In the future, it should consider giving publicly-run banks a lower profile in order to leave room for more active participation from the private sector. This would generate greater efficiencies and benefit from best practices in other countries of the region.