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ANALISIS OF FINANCIAL SECTOR TRAINING NEEDS

AID No. 515-0212:

TRAINING FOR THE PRIVATE SECTOR DEVELOPMENT PROJECT

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OVERVIEW

The Costa Rican Banking System consists of a Central Bank, four state owned banks, 11 private banks (with two more in various formative stages), and over 150 private finance companies. This report will focus on this banking portion of the Costa Rican financial sector, so that nonbanking services such as insurance and the securities exchange will not be considered.

The Public Banking System

The fundamental fact of banking in Costa Rica is the nationalization since 1948 of local currency demand deposit accounts, and of all foreign exchange produced by Costa Rica's exports. Only the four state owned commercial banks can open colon checking accounts, and all exporters must sell the foreign currency product of their exports to the Central Bank, which gives them colones at an official exchange rate.

The Costa Rican Central Bank (BCCR) is the Republic's official bank. BCCR is charged with the responsability of emission and administration of the Costa Rican currency, denominated the colon, and with the administration of the country's hard and other foreign currency reserves. Additionally, the Central Bank acts as the government's investment banker, cooperating closely with the Treasury Ministry (Hacienda) for the placement and redemption of government bonds, both for the bank's own account and as an intermediary for the investing public. In the past, BCCR has also acted as advisor to the Central Government in foreign currency loan negotiations. A third very important function is the direct regulation of all state banks and private financial entities, performing functions analogous to those of the Comptroller of the Currency in the United States.

The four Costa Rican state banks are Banco Nacional de Costa Rica, Banco de Costa Rica, Banco Anglo Costarricénse, and Banco de Cr¿dito Agr|cola de Cartago. These banks, which account for approximately 96% of Consolidated Costa rican banking assets, function ostensibly as commercial banks. However, under the Bank Nationalization Act of 1948, which put these banks under state control, they were given an economic development orientation which has resulted in a rather unique mix of commercial and noncommercial lending objectives and policies.

Today, the primary role of the state commercial banks is to implement the Central Bank's annual Credit Plan, which basically consists of disbursing predetermined quantities of bank credit to specified economic sectors at specified interest rates, with a specified mix between short term working capital credit and medium and long term investment credit. Loans under the National Credit Plan are funded from current account deposits, and from colon savings accounts and time deposits, as well as from any increases in money resulting from changes in reserve requirements or other activities of the Central Bank.

A second function of the state banks, acting as recipients from the Central Bank, has been the disbursal of long term investment funds for the private sector from multinational development banks and other international, official credit institutions. This function has in the past been much more active than at the present time due to the existing external restrictions imposed on Costa Rican hard currency credits.

A third major function of the Costa Rican state banks has been the cooperation with the Central Bank in adjusting the money supply and in security exchange operations undertaken primarily to finance the government. Under the present administration, these activities have been fairly conventional and similar to the actions of U.S. banks in adjusting to changes in reserve requirements.

The Private Financial Sector

The private financial system in Costa Rica consists of private banks that cannot offer demand deposit services and a small number of important finance companies. This financial sector is undergoing considerable growth and change at the present time while taking on a greater burden of non demand deposit related activities.

It should be mentioned that one of the major constraints for the private banks in functioning as such is the law under which they exist. The Ley Org nica del Sistema Bancario Nacional sets forth the scheme under which the system operates, outlining among other things the sectoral portfolio allocations and controls on loan pricing for these various sectors which must be maintained by each bank. But the law itself primarily addresses the modus vivendi for the national banks. The enabling clause for the private banks appears to be more incidental than planned, with the result that even the private banks must conform to all of the portfolio, pricing, and other controls of the state banks which were transformed to public interest entities.

This factor, therefore, is one of the major impediments to the establishment of local banks owned by or affiliated with major foreign banks. It is also a major impediment to a more open banking structure.

To some extent, this factor has been understood by the executive branch of government, and President Monge has appointed a commission to study the present system and make recommendations for reform. This study is due in August of this year. Some of the commission membership appears to be made up of old line Liberacionistas, so it is an open question as to how much change will ultimately result from the study.

Costa Rican private banks and the major financieras may be classified into two general categories: those owned by or associated closely with major international banks, and those owned by Costa Rican or foreign groups or individuals. The major change that has taken place in the financial sector in recent years has been the emergence of the latter type of private banks as the most dynamic factor in Costa Rican banking, as they have filled a vacuum caused by the virtual elimination of eurodollar based lending in Costa Rica to which the banks or financieras associated with outside sources of funds were heavily committed for business.

Because of difficulties in funding due to the constraints under which these banks must work, activities have tended toward concentration in short term working capital lending, and especially towards import and export foreign exchange operations where rapid turnover or limited funds is possible, and where service is critical so that private banks can obtain a significant competitive edge over the state banks. In this regard it is noteworthy that despite the private banks' composition of only 4% of total country bank assets as of 12/31/83, this private subsector earned approximately one third of total commissions. Since the commission structure is identical for all banks, this means that the private banks already process one third of the total foreign trade volume of the country (letters of credit, collections, export liquidations, etc.) and this figure is climbing.

There are over 150 financieras in Costa Rica, but the vast majority are small operations which are insignificant in an analysis of Costa Rican banking. There are perhaps only twenty major financieras in the country, and of these several are owned by or associated with major foreign banks, such as Citibank, First National Bank of Boston, Lloyd's Bank, and Banque Nationale de Paris. Several of these financieras have been actively considering reincorporation as banks, but in view of the recently increased minimum capital requirements, some of these may scrap their plans rather than invest US$2 million plus in the present financial environment.

Financieras have always been a legislative oddity in Costa Rica, more so now that the capital requirement for banks was colones 5 million, (US$581 thousand at that time at colones 8.60 exchange rate) and for financieras colones 1 million. But although the official capital requirement for banks has now been raised to colones 100 million (US$2.3 million at present rate of colones 43.65), it remains at only colones 1 million for financieras. It should be noted, however, that BCCR has the option of demanding a higher amount of capitalization to establish a financiera, and has been doing so recently, requesting colones 15 million. Nevertheless, the legal minimum remains colones 1 million.

Despite this large capitalization discrepancy with banks, financieras at the discretion of the Central Bank, can be authorized to act as intermediaries in the foreign exchange market, giving them access to the relatively complex but potentially highly lucrative documentary import and export transactions (letters of credit and collections). for this reason, most of the legal vehicles utilized by major international banks with a presence in Costa Rica have been financieras rather than banks. Also, some of the most active and aggressive banks founded by Costa Ricans started out as financieras and then became banks.

SIZE AND COMPOSITION OF THE COSTA RICAN BANKING SYSTEM

One of the constraints on effective banking in costa Rica, and one of the principal analytical difficulties, is the lack of timely and meaningful compilation of information on this public subsector. The accompanying spread sheet of the banking system was compiled from the monthly publication of the Auditor|a General de Bancos, an autonomous department of Central Bank. The publication, dated 4/30/83, is the latest publicly available, and it demonstrates an apparently only minor contribution of the private banking sector to the overall banking business in Costa Rica. But despite the staleness of the data, it is quite useful for purposes of generalized quantitative analysis.

The Public Banks

At that time, the stated assets of the combined national banks were colones 58 billion. Of these, approximately 18 billion are loans and accounts receivable, and 17 billion are "other assets and investments." Unfortunately, the Auditor|a does not publish its accounting standards to help identify precisely what goes into each account, so it is difficult to gauge the real worth of these assets.

However, it is known that the national banks do not adhere to the principle of non accruing loans, at least not as practiced in the U.S., so that interest simply keeps accruing as accounts receivable on many past due loans, sometimes for years. Recent publications in the local press reveal that the consolidated portfolio of the Costa Rican state banks is 48% current and 52% past due, with over 22% "frozen," that is, acknowledged as uncollectible. This 22% of loans constitutes 84% of combined state bank capital.

Again, it is not clear by what standards these figures are derived, and it is probable that any write off decisions are highly politicized within the institutions. In any event, it is also probable that by the standards of the internal audit department of a first rate U.S. bank, or of the National Bank Examiners in the U.S., the percentages would be considerably higher. This would mean that for purposes of a more rigorous analysis, a significant part of these assets should probably be eliminated from the balance sheet, more so than the 22% above mentioned, thus possibly eliminating all of the capital.

Beyond the loans, the colones 17 billion figure for "other assets and investments" is also suspect and may contain significant nonperforming assets derived from liquidation of collateral, such as hotels and real estate developments that have been closed or discontinued and taken over by any of the respective banks. The true worth of these assets is also probably highly questionable.

Other balance sheet items are also available in the monthly publication, but profit figures are not even mentioned. This focus, no doubt, is due to the national banks characterization as public interest entities in which profits are not their goal. However, this totally ignores an important element which impacts a bank's balance sheet, which is its capital growth, since the most important source of capital growth is earnings retained in the business.

The spreadsheet indicates that combined national bank capital at 12/31/82 was colones 4.6 billion, and that the capital to liability ratio was therefore 8.7%, compared to a 20.9% figure for the private banks. (By way of contrast, the Comptroller of the Currency in the U.S. has set a minimum figure of 4.5%, which mainly affects major money center banks since regional or smaller U.S. banks tend to have higher ratios, of about 8%). However, for reasons mentioned above and pertaining to major deficiencies in accounting methods, the national bank capital, even at the indicated level is grossly overstated, since a reduction in assets would be compensated by a similar reduction in net worth.

At the same time, annual disbursements of profits, as mandated by the banking law, are acting to decapitalize the system. This is so because the banking law requires the national banks to disburse from profits 10% of the total yearly payroll to an employee pension fund, and there are other mandated disbursements as well, while profits are grossly overstated. These are overstated for the reason already mentioned that nonperforming loans keep accruing interest and this is reported as revenue, while by prudent banking and accounting standards this should be reversed against profits every year. Thus, due to lack of proper accounting standards, and probably for political reasons, the banks make considerable year end distributions of income that is not really there, decapitalizing the system.

The Private Financial Sector

On the other hand, there are other considerations which justify the view that the figures in this comparison very significantly understate the importance of the private financial sector in Costa Rica. Specifically, in the case of private banks and finance companies representing international banks, the figures represent only the data on the local books, when in many cases the local Costa Rican entity served principally as a representative office for the booking of offshore loans in hard currency. Such organizations as Bank of America, Citibank, and First National Bank of Boston, to name only three, booked hundreds of millions of dollars in loans to Costa Rican companies and the public sector before the economic crisis which began in 1980. A significant portion of this debt is still on the books of offshore units of these organizations, and has become part of the renegotiated debt which Costa Rica owes to foreign banks.

Additionally, even local financial organizations used this modus operandi to book dollar loans to Costa Rican debtors through their own offshore affiliates in Panama or elsewhere. In most cases these loans were sourced from correspondent banks or even local investors with offshore dollars. Were this private sector offshore-booked debt to appear on the books of the locally chartered representatives of these institutions, the relative importance of the private banking sector would be altered radically. But the counter argument can be made that, since this type of dollar offshore lending has stopped completely in Costa Rica, inclusion of foreign debt acquired in the past is only of historical interest.

Nevertheless, there is considerable justification in concluding that the private banking and financial sector in Costa Rica is significantly larger, more important, and more dynamic than a simple comparison of total assets reported by the Auditor|a General de Bancos would otherwise imply. This is especially so when considering that the public financial sector figures are considerably overstated if applying more rigorous and prudent accounting standards to the balance sheets involved.

But going beyond the size of assets, precisely because the private banks are smaller and not burdened with a bloated bureaucracy, they are more capable of absorbing change and implementing needed reforms. And so this leads us to conclude that the private financial sector can continue to play a more pivotal role in the ongoing development of the productive sectors and in assuming more of a leadership position in improving financial standards and performance.

THE LEGACY FROM NATIONALIZED BANKING

Before considering specific training needs of the Costa Rican financial sector, it is worth noting four major areas or constraints which can be denominated the legacy of the nationalized banking system. It is important to note these because although they apply primarily to the state banks, there has been spillover into the private system as well and they constitute constraints to a more healthy development of the private financial sector.

The Problem of Professionalism. Some observers have mentioned that in the two decades subsequent to the bank nationalization of 1948, the system worked fairly well by previous standards because much of the management, especially the middle, unit managers continued in their posts. But as these people rotated out of the system by resignations, retirements, death, or whatever reason, the system began to deprofessionalize itself and to deteriorate. Now, after 36 years of government ownership, this process has accelerated considerably, to the point where it is politically acceptable, even within the ranks of the Liberaciøn party, to criticize the ineffectiveness of the system.

These 36 years have thus spawned a general deprofessionalization where the bankers don't identify as bankers, at least not as in the U.S., Mexico, Panama, Ecuador, or most any other nation in this hemisphere. There is no general banking "culture," and in the public sector, no concept of providing a service to the consumer. In the private sector, there has been much improvement, although some of this may be more the result of a desire for efficiency than a desire to become more professional.

At the executive level, this lack of professionalism may be manifested in an excessive balance sheet mentality for lending (i.e. preoccupation with sufficiency of collateral instead of cash flow), insufficient emphasis on liquidity, insufficient credit analysis, insufficient or unsophisticated financial planning, and ignorance of what is going on in banking outside the borders of Costa Rica. All of these issues may be addressed through training of the private sector, and the public sector as appropriate.

The Accounting Problem. We have already mentioned some of the accounting issues which face the financial system in Costa Rica. This problem is of major importance because it touches on the integrity of the system, by permitting reporting of fictitious assets and revenues. However, for political considerations, we cannot realistically expect much change here since the national banks are the ones most affected.

Accounting issues are also manifested in another way, this from the management perspective. As it is now, the Auditor|a General de Bancos dictates reporting requirements for all financial entities. This usually translates into balance sheets that are not overly informative from a bank management point of view but which must be prepared as required for the Auditor|a's statistical purposes. It could be of significant help to bank managers if these reports could be structured in such a way that they not only fulfill Auditor|a's needs, but also provide useful information to management, such meaningful as breakdowns of revenues and expenses, and more detailed breakdowns of asset and liability categories rather than lumping into "other" categories. For instance, in the 4/30/83 monthly publication of the Auditor|a General de Bancos, the largest asset category for total private sector banks is "loans and discounts" for colones 576 million, followed on the balance sheet by colones 430 million in "other assets." On the liability side, the most significant account categories are "other" types of liabilities.

Any improvements that could be made in this regard will help to orient the Costa Rican private financial sector towards sound banking practices, which is one of the purposes of the Auditor|a to begin with. Specialized training for these purposes may be available from the U.S. Comptroller of the Currency, or some similar institution in other countries, preferably Spanish speaking.

The Structural Problem. This issue is twofold. The first related to the decision making process existing in several private financial entities, and of course, in the state banks. In some banks, directors meet every week to attempt to decide all issues which need attention. Many times all of the issues don't get covered, so that some get postponed, resulting in a backlog of pending items and decisions.

The problem involves not the size of the boards, but the lack of financial decision capability at the board level, and the lack of managerial delegation within the institution. And, they probably meet too often, so that in some cases the bank manager may be relegated to the role of administrator who prepares agendas for somebody else to decide. The result may be managerial paralysis. This is a difficult and ineffective way to run a bank, but for some in Costa Rica, it's the only way they know.

With some training and educating in financial analysis and bank management, especially at the board level, this modus operandi in time can probably be modified. However, it is an issue that goes hand in hand with the following major constraint.

For the Costa Rican private banks, exclusing those affiliated with major foreign financial institutions, the issue of the audit function can be of extreme importance, both at the operational level and for the credit side. No doubt, the absence of a strong audit staff within the bank makes it more difficult for a board to delegate its decision making powers. It is a difficult problem to solve, because it requires experience and know how, and the Auditor|a cannot be expected to fill this function since theirs is a superintendency role.

Since most of the private Costa Rican banks are quite small in terms of personnel, it is all the more difficult for each one to have an inhouse operations and credit audit staff which reports independently to the board. And, external auditors such as Peat, Marwick, Mitchell, are not qualified to fill this function because this position requires banking experience.

Possible solutions to the problem might be to contract this function to a major international bank such as Bank of America or Citibank, but this would probably require adaptation of some of their systems to make this a feasible solution. This in itself would not be a bad idea.

Another possible solution would be for a centralized office to provide this service to several private banks, thus spreading the costs and justifying the position in terms of work load. This possibility would also probably imply some compatibility of systems within the banks, both at operations and credit levels, and this in itself is probably also a good idea. Perhaps such a function could be channeled through the Costa Rican Bankers Association.

The Central Bank Role. Because of the orientation that has developed on the part of the Central Bank and the state commercial banks over the years, in which their primary concern is implementation of the National Credit Plan, BCCR has lost some sensitivity to its central role in the economy as regards the private banks and the private sector in general. This has been exacerbated by the situation in BCCR wherein most executives make a career of the Central Bank and so have less experience and understanding of the private sector's needs than would be the case with a greater mix of professional backgrounds.

Greater interaction with the private sector is therefore advisable in this regard, and training would be an appropriate vehicle for bringing together key BCCR people with representatives of the private financial sector.

IDENTIFIED TRAINING NEEDS

From the foregoing, from interviews with representatives of most of the private banks and major financieras (see Exhibit 2), and from discussion with people from the Central Bank and the Auditoría General de Bancos, several areas of training needs have become evident. Some needs are more general in nature, others more specific. For some areas, short term in country training may be advisable as the most cost effective, while for others, longer term programs outside the country may be more appropriate to reinforce product knowledge and provide vital on the job training and in some cases, to provide greater educational depth. What need be structured, then, is a balanced mix that will address the deficiencies of the system and the needs of the recipients, in a logical and cost effective manner.

The Central Bank

Because of its key role in setting the ground rules for the functioning of the system, it is imperative that the Central Bank be included in setting up and implementing a training program. It is also important that they be included so as to promote a greater sensitivity on the part of BCCR to the financial private sector and to the private sector in general.

The key departments at Banco central as regards the private banks and financieras are the departamento financiero and transacciones internacionales, both of which report to the head of the División Financiera. These are key departments because they control the documentation requirements and disbursal of local currency and foreign exchange for all foreign trade transactions on a day to day level, and they have strong policy input in this area as well.

BCCR is cognizant of their needs for training and upgrading of their managers and professionals and has made specific requests to AID in this regard. They have included both long and short term needs in their request, which appears to be fairly ambitious and comprehensive.

For short term training, they have requested a course which would cover in some detail the technical aspects of the foreign trade documents they process and elements of international bank management as well. They are also interested in general management courses to help modernize and streamline their organization and planning systems and to provide greater motivation for their staff. Some of these areas of interest would involve consulting work rather than courses, such as development of management information systems and improvement of security planning and implementation. Another identified short term need is for legal training in the area of external debt negotiations.

Longer term programs that have been identified by BCCR include internships of one to several months duration in U.S. banks in the area of services management (letters of credit, collections, etc.) and university training for masters degrees in business, statistics, public administration and computer sciences. To complement these longer term programs, and perhaps the short term ones as well, the Central Bank feels that extensive coaching in the English language is necessary.

Auditoría General de Bancos

The Auditoría General de Bancos is in effect the superintendency of banks. They are quite autonomous, from the rest of the Central Bank, and somewhat antiquated in their methods, hampered by a lack of standards in accounting. The financial system needs these standards, but this issue is politically sensitive since the entities most adversely affected by strict supervision of the credit portfolio would be the state banks themselves.

Nevertheless, the banking system would benefit by a modernization of internal bank accounting procedures and reinforcement of the Auditoría's supervisory skills since in many instances the Auditoría must deal with and find solutions to accounting and other problems encountered by the various banks. It would therefore be appropriate to focus efforts in this area to help and permit the Auditoría to upgrade its performance so that this entity can provide support and control of the private financial sector.

The Auditoría has recently established its own training office. They have identified their own needs and have gone to the Interamerican Development Bank for assistance in funding since their budgetary allocation for this purpose has already been depleted. They have identified needs for training in data processing and computer applications, in internal auditing for the Central Bank, and in general auditing for private banks. They have arranged for three one month internships in Mexico, Chile, and Peru to cover the above needs, and they are also interested in some help with portfolio risk analysis from the superintendency of banks of Chile. The Auditoría has also set up an inhouse training effort to pass on the benefits of external training to the whole staff and to upgrade general skill levels.

Some of these programs have been arranged by the Centro de Estudios Monetarios Latinoamericanos (CEMLA), and IDB has not yet confirmed whether or not they will pick up the costs of the internships mentioned above.

The Private Banks

There is considerable need for generalized credit training at all levels to professionalize bankers and to provide a culture for them to permit ongoing development of the sector. In many cases what is needed is a broad vision of what banking is as a profession, and not limited to Costa Rica. Appropriate areas for coverage would also include financial accounting and financial statement analysis, especially at the board level of many banks where the credit decisions get made.

There has been some talk of training a "cadre" of trainees as seed for later absorption by the private banking sector. Most bankers interviewed looked favorably on the idea and thought that all such people would have no difficulty in finding a job since there is such demand and much hiring now is done by virtue of "pirating" from another institution.

There is also need for specific product knowledge training such as foreign trade (as mentioned above), bank accounting, and some treasury considerations such as money market instruments, funding strategies, and liquidity management. Other topics pertaining to electronic banking, tax and legal issues, bank planning, macroeconomics and the IMF, and others would be appropriate to cover at some levels, but probably within a structured course an appropriate rather than as a stand alone course. Most of these topics could be covered in relatively short, structured courses in country.

Institutionalized training, such as longer term internship to provide on the job training and a fresh perspective, are also needed, especially for unit heads of accounting or processing departments or of foreign trade departments. The difficult part about structuring such a program is the time factor involved, since going without a key employee for many weeks or several months can be extremely difficult for a bank with few employees. However, over the course of a five year program this factor should become less of a problem as the private financial sector grows and as more training is offered to provide more people as backups for those who are trained out of country.

SPECIFIC COURSE RECOMMENDATIONS

The following section makes specific recommendations for courses. Please consult Exhibit 3 at the end of this report for a listing of the various courses mentioned along with population and cost estimates.

When we refer to these courses, we have in mind a program for sixteen to twenty people, highly interactive between the instructor, the participants, and themselves, to be taught by the case method where possible, utilizing a U-shaped table. This format is recommended as the best way to learn, to foster open communication, and to promote interchange within the participants themselves. Theater type presentations, while less expensive because more people can be packed in at one time, are not as propitious to learning and should be utilized only in special circumstances.

Where possible, courses should be offered in a more isolated setting, away from the respective offices of participants. While bank management may prefer night work so as not to disrupt the day's operations, this format is not so conducive to learning.

At present, because so little training has been done, there is a significant catch up population to be trained, so that more intensive scheduling during the first years of the five year program will probably be necessary, at least for the short term courses. Later, subsequent offering of particular courses should be scheduled, perhaps annually, to cover new arrivals into the financial system and to accomodate growth

This issue of the potential growth of the private sector financial system could have a major impact on this training program. The estimates mentioned in te following text and in Exhibit 2 for number of courses to be offered during the implementation of this five year program are based on the existing population and a reasonable growth of the system in terms of population. This growth is assumed at 15 to 20% per year. If the actual growth were to surpass these figures by a considerable margin, the estimated number of courses would increase commensurately.

Public Sector Courses

For the Central Bank, a foreign trade course is recommended to upgrade the staff skills of the departamento financiero and transacciones internacionales. The course should cover collections, letters of credit, bankers acceptances, issues pertaining to correspondent banking relationships for documentary operations, local customs regulations, the problems of under and over invoicing, money market instruments, and other areas as identified.

An international bank management course for the Central Bank would probably also contribute to a smoother functioning of the Costa Rican financial sector, and to a greater sensitivity of private sector needs. Like the foreign trade course above, this course was specifically requested by BCCR management. Areas to be covered could include cash management, investment strategies, hedging, international money market instruments, electronic banking and funds transfers, liquidity controls, and perhaps some economics and country risk.

In content this course would be similar to the unit management course recommended for the private sector below, and it would perhaps be quite productive if the same course could be offered to both sectors with a mixture of participants to promote interaction and communication. This observation holds true for the foreign trade course as well. BCCR management, in principle, has indicated a favorable disposition to this idea.

Because of much of the subject matter involved, the course would probably have to be custom designed, or at least combined with some existing material. Between the Central Bank and the private sector, there could be demand for three to four courses of twenty persons each at this time with subsequent at least once per year.

For the Central Bank (and for the private sector as well - see below), the above courses could also serve as prerequisites and/or filters for one to several month internships in U.S. banks for key people. These internships would be appropriate for professionals in trade services, in treasury and investment, and in cash management and electronic banking. BCCR has identified twelve people that they would like to involve in these programs, at a rate of three per year.

A general management course would help provide more of a private sector managerial orientation at BCCR, and hopefully result in increased efficiency and productivity of operations. The contents of the course could include elements of strategic planning, budgeting, time management, systems optimization and automation, management information systems and supervisory skills. BCCR management has identified 60 people for this course, which would probably mean at least three offerings.

Long term programs for the Central Bank involve education at U.S. universities at the masters degree level. Areas of need include business administration, statistics, economics, public administration, and computer sciences. Obviously, effects of these programs are long term in nature, and it is essential that the short term trust of the A.I.D. training efforts be complemented with these more costly long term programs to contribute to a more professional and productive environment for private sector growth and development.

Banco Central has identified 10 slots of two years each which could be allocated two per year, or perhaps loaded more toward the beginning in view of the duration of each program. Placement of the participants will be of importance, and highly competent but less well known U.S. universities are recommended to maximize the return on investment.

Another identified need of BCCR is for some training or coaching of legal personnel in the area of foreign debt negotiations. This would appear to be a lower priority for A.I.D. training programs since the area involved would have a lesser impact on the private sector.

For all of the mentioned BCCR programs, a major concern is language. For in country courses, Spanish language instruction should be feasible for many of the subjects covered, but internships and university programs will obviously require more extensive English language capabilities. BCCR has therefore identified English language training as essential for the above training development programs and for maintenance of general professional standards. In the case of university training especially, they have requested English language training for three months prior to any university program. This U.S. based training should therefore be offered in order to maximize the investment in the masters program.

More generalized English language training would probably be appropriate in other areas, and perhaps even out of country in selected, specialized cases. However, in most instances local English language instruction should be sufficient.

Auditoría General de Bancos

Because of their key and direct relationship in supervising the private sector banks, and because the personnel of the Auditoría General de Bancos presents many of the same needs and deficiencies as personnel of the Central Bank, it would be appropriate to invite some Auditoría personnel to some of the BCCR programs, especially those in country. In particular, Auditoría personnel could especially profit from the proposed foreign trade, international bank management, and general management courses. In this regard, it should be noted that the population numbers mentioned above for BCCR do not include needs of the Auditoría.

Private Sector Courses

A financial accounting and financial statement analysis course should be offered for intermediate and management/board levels, i.e. the same course for both levels. This would be an intensive probably two week course that will provide a strong financial analytical reinforcement and base to people who make credit decisions or recommendations. A similar lower level course should also be offered for trainees or recent hires, but at a less intensive pace, possibly combining with on the job experience by scheduling during the mornings or afternoons for a month. The upper level course could absorb up to three offerings, while the lower level course would probably have a lower demand, of only one or two at this time.

A general credit and banking course would be highly useful primarily for intermediate level bankers to reinforce general credit skills and provide a stronger analytical framework for day to day banking decisions and to prepare them for assuming greater responsibility within their respective banks. The stress here would be less on the numbers and more on risk analysis, market definition, collateral evaluation, loan administration, some legal issues, some funding issues, bank accounting, etc. Demand for this course at the present time is one to two offerings.

A unit management course aimed at managers and directors is probably one of the most necessary of courses. The objectives would be to provide product knowledge of different banking products existing in other capital markets, to focus on the role of banking and where it is going, and to provide a generalized overview of what a bank manager or director should know in managing his or her bank. Areas to be covered could be bank planning and market orientation; budgeting and forecasting; treasury issues such as funding and hedging strategies, money market instruments, and liquidity controls; macroeconomics and country risk; and a bank simulation game in which participants manage their own banks in a computer simulation.

Because of the specialized nature of the course and its content, it would probably have to be custom made, and partly in English. It could probably be offered in country. Demand for this course should be sufficient for at least two offerings at this time.

The foreign trade course would be very similar to that of the Central Bank, although sensitive issues, if any, (perhaps over and under invoicing) should be omitted. If possible, both courses should be identical so that a mix of BCCR and private sector people could take the course together to promote communication. This course could also serve as a prerequisite for key foreign trade people who might participate in a longer term internship program out of country. At the present time there is considerable demand for this course.

An operations management course could also be instituted to provide instruction to operations unit heads in the management of their respective departments. Such a course could be a lead in and prerequisite for an outside internship of one to several months where practical on the job training would supplement significantly the course material.

Outside internships should be investigated as needed since it is not anticipated that there will be a large volume of this type of aining due to the luctance of manv bankers to send off key personnel for extended periods of time. A possible solution to this problem might be to trade key people, say a head of the foreign trade unit, with another bank in the U.S. This would benefit the reciprocating bank by providing valuable on the job experience for their employee relating to banking operations in a Latin country.

Some bank management may have to be persuaded to utilize these very valuable programs, for the reason mentioned. Also, some correspondent banks already offer a similar service to some of the Costa Rican banks, so that persuasion might be accomplished by a generous absorption of the costs involved abroad.

It is not anticipated that there will be great demand from the private sector for university training for its existing personnel because of the high cost and major commitments involved. Also, since INCAE is a reputable local supplier of managerial and financial talent, if a local bank needs an MBA, there are people available in the local market. And, even in the U.S. there are few banking schools as such so that U.S. banks themselves simply hire MBA's and train them.

POLICY CONSIDERATIONS

Cost

When considering the cost of custom made programs, it is difficult to be specific about how much will have to be spent, especially since the ultimate course content will determine who and how many people must be brought in and hence what the costs will be. The costs, of course, will be lower if local people or institutions are contracted than if outsiders are brought in, or if parts of existing courses are utilized in conjunction with customized material. However, some of the material is of such specialization that in country sourcing will not be feasible.

The actual cost of an in country course will include, either directly or indirectly, the cost of material development or consultant fees, travel and lodging for outsiders, rental of a conference room, lodging for participants if the course if offered outside the city, the cost of material preparation such as typing and photocopying, the salary of the course administrator, and incidentals. These costs can thus vary significantly depending on the program, and can run as high as US $2,500 per participant (minimum eighteen participants) for a program such as the unit management course, excluding hotel lodging for participants.

For a structured, or canned, course brought in from the outside, such as a two week financial statement analysis course or general credit course, the tuition cost per participant would probably be around US $1,000 to $1,500, with a minimum of eighteen participants. This would include all costs mentioned above, exclusive of local lodging for participants, if any.

For a locally produced or supplied course, such as an INCAE program, the costs would probably be significantly lower, although they would climb quickly if significant material preparation were involved beyond what was already developed.

For internship programs in the U.S., costs would include lodging plus any tuition fees, as well as international transportation and the participant's salary. While some internship programs may even be free from the tuition standpoint, others would probably be expensive, especially as the subject matter becomes more specialized. Tuition costs could therefore vary considerably.

For masters programs, tuition costs would also vary considerably, so that extensive "shopping around" is advisable. A.I.D. training personnel have further information in this area.

An issue that must be addressed then, is what should be the appropriate level of counterpart costs. To be realistic, and taking into consideration that throughout this training program most of these rather small banks will be sending quite a few participants to various courses, it is probably safe to say that the more A.I.D. underwrites, the more successful the program will be. On the other hand, the banks themselves will benefit considerably so it appropriate that they pay part of the cost as well.

A fair level of counterpart costs for the institutions involved would appear to be around 25% of tuition costs, any travel costs, and the full salary. For internships, it is recommended that tuition free programs be obtained where possible and that A.I.D. absorb lodging and per diem expenses in order to promote this type of training.

However, for the public sector entities involved, i.e. Banco Central and the Auditor|a General de Bancos, the program would probably best be served if A.I.D. were to absorb 100% of the tuition and/or lodging costs. The reason for this is that in some cases, the training budget has already been depleted, and both are public sector organizations. This is especially so for the masters programs since if the full tuition amount is not absorbed, it is likely that the education of the individual will not occur.

Specifically, in the case of the Auditor|a, if IDB does not provide the grant that has been requested, A.I.D. should consider absorbing the costs within this program since the benefit would insure to the Costa Rican financial sector as earlier mentioned.

<u>Selection Criteria</u> (See Exhibit 4)s

Since this financial sector program is destined primarily for an executive level, the selection criteria in most cases will not be difficult to define since the vast majority of these people are professionals. For credit training, we have three levels: management and board, intermediate, and financial analysts and entry level executives. The credit courses have been recommended accordingly.

For other areas, such as operations and foreign trade departments, selection will be more difficult and a minimal educational and experience level will have to be defined. It would not be appropriate to specify the level at this time because this factor will ultimately depend on how the course is finally structured.

For the public sector, A.I.D. sponsored control over the selection process will be more difficult since the respective personnel tend to possess a generally lower educational and experiential level and since their job descriptions tend to be more obscure than in the private sector . Perhaps a general job categorization and tiering by job description, similar to the Hay system used in most major U.S. corporations, could be implemented for purposes of nomination and required as a condition for acceptance, applicable to both private and public sectors. Minimum levels could then be established for each course. This would serve as democratic and fair hurdle criteria for acceptance into any program.

In any event, however, a condition of admittance should be established that participants be able to implement on their jobs what they have learned in the course. This condition should apply to the public sector as well, and it could even be structured in such a way as to give greater priority for acceptance in any program to personnel who will be promoted to a position of greater responsibility as a result of participation in the program.

Institutionalization

This is a fairly ambitious program, with potentially highly beneficial results for the Costa Rican banking sector. It is not a short term program, and as such will require some degree of institutionalization to maintain its momentum. Although CIAPA has already been identified to provide this needed institutionalization, significant and ongoing contact with the financial sector entities will be necessary for continual identification of needs, refinement of programs, and for coordination of scheduling and participant nominations.

It is recommended that this be done through the Asociación Bancaria Costarricense due to the specialized nature of the training development effort, and since the ABC is in day to day contact with the membership. This may involve one or two full time people to design and develop material and to coordinate and act as course administrators during the running of the programs and seminars. Perhaps these functions can be channelled through CIAPA, but an ongoing relationship with the ABC will be necessary.

Participation of State Commercial Banks

Another issue that must be addressed is the potential participation of the state commercial banks in this program that has been designed for the private commercial banking sector. Since much of the initial stages of this A.I.D. program have been channelled through the Asociación Bancaria Costarricense and will apparently continue to be so channelled, and since much of the purpose of the ABC is to bring the financial community together and foster harmonious relations within the sector, it might adversely affect the thrust of the ABC if state banks who are members were denied access to the various courses.

The state banks have their own training needs, and these are massive in comparison to the private banks. Banco de Costa Rica alone, the second largest of the four state banks, has identified training needs, in one area or another, for over 100 professionals on its staff. They have expressed interest in participating in the A.I.D. program and would probably nominate several people if invited. BCR has also demonstrated interest in joining the ABC, and it is probably politically favorable from the A.I.D. point of view if they join.

Another argument in favor of accepting state bank nominations to the A.I.D. courses, to the extent that these banks join the ABC and to the extent that the prospective participants meet the acceptance criteria, is to promote communication between individual members of the state and private systems. It has been the experience of major U.S. banks in their inhouse training efforts that a very major benefit of bringing people together from various countries or environments for a course is the interaction and cross fertilization that takes place that later contributes to a smoother functioning organization. This result would also benefit the Costa Rican banking system where greater understanding between the public and private financial sectors would result. However, if the state banks were permitted to participate, a limit of people per course from each bank, or from the total public sector, would be appropriate. Also, these banks should pay their counterpart costs the same as the private banks.

Third Country Training

This A.I.D. program has been envisioned for training either in country or in the U.S., and almost all of the training needs can be thus accommodated. However, there exist some specialized needs for some public sector training that might best be served by permitting third country training to fall within the scope of this program. Specifically, in the case of the Auditoría and perhaps in the case of the Central Bank, some programs sponsored by CEMLA, the Latin American Center for Monetary Studies, provide training geared to Latin countries in terms of monetary and structural needs, and in Spanish. These programs, because they are geared to the Latin economies and because they are offered in Spanish, cannot be easily offered or duplicated by U.S. monetary authorities. Therefore, consideration should be given to permit coverage of some of these programs on a case by case basis, and to the extent that the same or a similar program is not offered by competent U.S. authorities.

EXHIBIT 1

COSTA RICAN STATE AND PRIVATE BANKING

30 April 1983 - 000's

	1 STATE BANKS	2 PRIVATE BANKS	3 PRIVATE FI-NANCIERAS	4 TOTAL PRIVATE	5 TOTAL IN COLONES (2+3)	6 TOTAL IN DOLLARS (1+2+3)	7 % TOTAL (5/43.65) STATE	PRI
ASSETS								
Cash and Banks	13.025.814	295.816	118.219	414.035	13.439.849	307.900	96.9	3.
Loans and Accounts Receivable	17.789.049	576.335	567.919	1,144.254	18.933.303	433.753	94.0	6.
Securities and Other Liquid Assets	9.261.293	293.939	388.425	682.364	9.943.657	227.804	93.1	6.
Other Assets and Investments	17.106.493	481.805	107.827	589.632	17.696.125	405.410	96.7	3.
Fixed Assets	769.860	39.622	59.859	99.481	869.341	19.916	88.6	11.
Prepayments	169.839	15.541	2.747	18.288	188.127	4.310	90.3	9.
Total Assets	58.122.348	1,703.058	1,244.996	2,948.054	61.070.402	1,399.093	96.2	3.
LIABILITIES								
Funding, Deposits and Invest. Certs.	39.636.048	397.236	709.457	1,106.457	40.742.741	933.397	97.3	2.
Bonds and Other Debt Securities	51.102	485.902	-	485.902	537.004	12.302	9.5	90.
Loan Debt to BCCR	1.738.359	166	-	166	1.738.525	39.828	100.0	-
Loan Debt	3.280.446	398.352	-	398.352	3.678.798	84.280	89.2	10.
Other Liabilities	8.388.710	113.126	269.412	382.538	8.771.248	200.946	95.6	4.
Subordinated Debt	-	-	31.555	31.555	31.555	723	-	100.
Deferred Charges	388.089	12.878	-	12.878	400.967	9.185	96.8	3.
	53.482.754	1,407.660	1,010.424	2,418.084	55.900.838	1,280.661	95.7	4.
NET WORTH								
Capital Stock	3.883.900	223.646	155.306	378.952	4.262.852	97.659	91.1	8.
Paid In Surplus	-	2.031	1.047	3.078	3.078	71	-	100.
Revaluation Surplus	-	-	4.559	4.559	4.559	104	-	100.
Reserves	264.686	25.919	30.293	56.212	320.898	7.352	82.5	17.
Retained Earnings	-	6.617	41.800	48.417	48.417	1.109	-	100.
Profits	-	3.565	-	3.565	3.565	82	-	100.
Unclosed Operational Accounts - Net	491.008	33.620	1.567	35.187	526.195	12.055	93.3	6.
	4.639.594	295.398	234.572	529.970	5.169.564	118.432	89.7	10.
Leverage Ratio (Liabtlities/Net Worth)	11.52 to 1	4.77 to 1	4.31 to 1	4.56 to 1	10.81 to 1			

EXHIBIT 2

Persons Interviewed

José Luis Albero	Banco de Santander
Eladio Alonso	Banco del Comercio
Ronald Balma	Corporación de Boston
Leonel Baruch	Banco BCT
Luis Bell	Asociación Bancaria Costarricense
Jorge Castro	Banco del Comercio
Olivier Castro	Banco Central de Costa Rica
Rafael Diaz	Auditoría General de Bancos
Carlos Formoso	Banco Central de Costa Rica
Guillermo Hernández	Bank of America
Federico Herrero	Banco Cooperativo
Luis Liberman	Banco Interfin
Gonzalo Mata	Crece
Emilio Obando	Banco Central de Costa Rica
Rafael Quesada	Auditoría General de Bancos
Vincenz Schmack	A.I.D.
Siegfried Schosinsky	Banco de Costa Rica
Ernesto Solera	Citicorp
Grace de Sotela	Francofin
Carlos Urcuyo	Banco de la Construcción
Telmo Vargas	Xerox (formerly BCCR)
Guillermo von Breyman	Banex

Exhibit 3

Tuition Cost Estimates

Short Term Courses

	weeks/ course	cost/ partic US$	offerings yr1	yr2/5	person months	total cost US$ M
BCCR + Auditoria						
foreign trade	1	750	2	2	20	60
int'l bank mgmt	1	1500	1	2	15	90
general mgmt	1	1500	2	4	30	180
english	4	750	1	4	100	75
Private Sector						
finan statmt anal - entry level	4*	750	1	4	50	75
finan statmt anal - intermed/board	2	1500	2	4	60	180
gen credit & bank	2	1500	2	4	60	180
unit mgmt	2	2500	2	4	60	300
foreign trade	1	750	2	4	30	90
operations mgmt	2	1000	1	2	30	60
english courses	4	750	1	4	100	75
Totals					555	1365

Internships and Masters Programs

	no.	months each	person years	cost US$ M
BCCR + Auditoria				
internships	12	1	1	24
masters programs	10	18	15	306
intensive english	10	3	3	51
Private Sector				
internships	15	1	1	30
Totals			20	411

* part time

Exhibit 3, continued

Assumptions

1. All short term courses in country.

2. All short term courses of twenty participants each.

3. Does not include institutional or miscellaneous costs per course. Miscellaneous costs could total between US$ one and two thousand per course.

4. Costs do not include inflation factor.

5. Demand for courses subsequent to year one based on normal turnover plus growth of 15 to 20 % for private sector.

6. Prepared or existing courses will be offered where feasible.

7. All internships of one month each.

8. Cost estimates for internships, masters programs, and out country english courses based on U.S. Embassy figures.

9. Cost estimates and duration for in country english courses based on Northern Illinois course.

10. Duration of masters programs assumed at 18 months in accordance with AID guidelines.

Exhibit 4

Selection Criteria and Weighting
for Non Board Participants

1. Does the nominee's Hay point rating fall within established guidelines?

    4 falls within established tiers
    2 falls above established tiers
    1 falls below established tiers but not by more than one tier

2. How much banking/finance experience does the nominee possess?

    4 three to four years
    3 five to six years
    2 one to two years
    1 more than six years

3. What educational level does the nominee possess?

    4 college degree
    3 MBA or other Masters degree
    2 minimum three years of college
    1 high school diploma

4. Will participation by the nominee result in a promotion upon his/her return or shortly thereafter?

    4 yes
    2 shift to another job but no promotion
    1 no

5. Will another participant from the same institution be represented in the same course?

    4 no
    3 yes but only one
    2 yes, two others
    1 yes, but no more than three

6. Will the participation of this nominee fall within established quotas for public and private sector participation in the program?

   3 yes
   1 no