

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: 55570-NI

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

BROAD BASED ACCESS TO FINANCIAL SERVICES PROJECT

CREDIT 3903-NI

MAY 18, 2004

TO THE

REPUBLIC OF NICARAGUA

SEPTEMBER 15, 2010

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

ABBREVIATIONS AND ACRONYMS

ASOMIF	Nicaraguan Microfinance Association
FNI	Nicaraguan Financial Institution for Investments
INFOCOOP	Nicaraguan Institute of Cooperatives Development
SIBOIF	Superintendency of Banks and Other Financial Institutions

Vice President:	Pamela Cox
Country Director:	Laura Frigenti
Country Manager	Camille Anne Nuamah
Sector Manager:	Lily L. Chu
Task Team Leader:	Michael J. Goldberg

NICARAGUA
Broad Based Access to Financial Services

CONTENTS

	Page
RESTRUCTURING PAPER	4
ANNEX 1: Updated Critical Risk Framework	5

NICARAGUA – BROAD BASED ACCESS TO FINANCIAL SERVICES

P077826

CREDIT 3903-NI

Restructuring Paper

1. The closing date for *Nicaragua Broad-Based Access to Financial Services (Credit 3903-NI)* will be extended from December 31, 2010 until December 31, 2012, to enable the project to assist the Government to develop a legal and regulatory framework for microfinance, strengthen the capacity of Superintendency of Bank and Other Financial Institutions (SIBOIF), and support the transformation of microfinance institutions into regulated financial institutions.
2. The project development objective is to improve access to financial services provided by sound, profitable financial institutions for low-income households and micro and small businesses. The Project Development Objective continues to be achievable. Some key indicators of overall project success have been achieved, including (i) an increase in the number of accounts in supervised financial institutions and (ii) an increase in the number of points of service for supervised financial institutions. A specialized private credit registry has been established and is largely covering its operational costs, and has become the largest credit registry in the country. SIBOIF has established a specialized unit for microfinance supervision, with trained supervisors and dedicated equipment. Three non-government organization microfinance institutions have transformed into specialized regulated microfinance institutions, under supervision of SIBOIF. Finally, in the marginalized Atlantic Autonomous Regions, investments have been made in training and equipment to small microfinance institutions to increase their outreach and efficiency.
3. The proposed extension is necessary to provide additional time and support to project implementing agencies and the private sector partners to secure the gains in access to finance. The Borrower has in place an action plan to complete the project and disburse the remaining US\$3.4 million in project funds within the two-year period. The action plan includes specialized technical assistance and goods to strengthen SIBOIF's capacity, improve the ability of retail microfinance institutions to transform into regulated institutions, and develop a legal and regulatory framework for microfinance. Consultants for key technical assistance activities have already been identified. A recent Bank supervision mission confirmed that there is a high likelihood that these activities will be completed within the timeframe.
4. This will be the second extension of the project.

**ANNEX 1:
Updated Critical Risk Framework**

**New Risks Identified During Implementation/Restructuring That Might Jeopardize
Achievement of the Restructured Project DOs or Outcome Targets:**

Risks	Risk Rating	Risk Mitigation Measures
Operating environment risks	Significant	<p>The project is supporting an international consultant to provide guidance on microfinance legal and regulatory matters to SIBOIF, FNI, ASOMIF and Congress. A preliminary proposal is under review.</p> <p>The regulation and supervision of financial cooperatives, which often serve microfinance clients, is not clear. Discussions are taken place with INFOCOOP, leading cooperatives, and FNI to identify the best approach to develop a legal and regulatory system for financial cooperatives.</p> <p>Close donor coordination is taking place to ensure that the operating environment issues do not decrease access to financial services in the short term.</p>
Implementing Agency risk (FNI)	Significant	<p>The government has launched a new state bank that will be active in microfinance and may subsequently be proposed as the project implementing agency. Initial indications are that the systems, key personnel, policies and institutional structure are not yet well developed.</p>
Project risks (design, safeguards, donor, delivery quality)	Modest	<p>No changes in project activities, components, or indicators are involved.</p> <p>The emphasis on technical assistance enables the project to meet challenges as they arise.</p> <p>Three microfinance institutions have presented plans for transformation into regulated financial institutions.</p> <p>Strong partnerships with a wide range of key stakeholders have been built around the project design.</p>

