



1. Project Data:		Date Posted : 08/12/2002	
PROJ ID: P007777		Appraisal	Actual
Project Name: Financial Sector Adjustment	Project Costs (US\$M)	71.4	71.4
Country: Nicaragua	Loan/Credit (US\$M)	71.4	71.4
Sector(s): Board: FSP - Banking (93%), Other industry (7%)	Cofinancing (US\$M)		
L/C Number: C3056			
	Board Approval (FY)		98
Partners involved :	Closing Date	12/31/1999	06/30/2000

Prepared by :	Reviewed by :	Group Manager :	Group:
Michael R. Lav	Jorge Garcia-Garcia	Rene I. Vandendries	OEDCR

2. Project Objectives and Components

a. Objectives
(i) carry out a major reform of the state banking sector within an improved macroeconomic framework; (ii) improve financial intermediation, especially in rural areas; and (iii) improve the regulatory framework for private banking.

b. Components
The loan had three tranches. The first tranche, for US\$40.8 million, contained conditions to be implemented before Board presentation, including a plan to strengthen supervision of banks, establishment of a financial analysis unit in the Bank supervisory office, and actions to contain losses in the state-owned banking sector. The second tranche, for US\$15.3 million, was a floating tranche with conditions aimed at the privatization of BANADES, the largest Nicaraguan bank which was state-owned. The third tranche, for US\$ 15.3 million, was also a floating tranche and comprised conditions towards the privatization of the assets of BANIC, another state-owned bank.

c. Comments on Project Cost, Financing and Dates
Project cost data is not given in the ICR. The IDA credit supporting the project was for US\$ 71.4 million in three tranches. The project was appraised in February, 1996, approved by the Board on April 9, 1998, made effective on July 9, 1998, and closed on June 30, 2000, six months behind schedule.

3. Achievement of Relevant Objectives:
The assets of BANADES and BANIC were privatized. BANIC was recapitalized. Nicaragua's government pursued and to a large extent implemented the improved macroeconomic framework. Supervision of banks was strengthened.

4. Significant Outcomes/Impacts:
The banking sector in Nicaragua is now fully privatized. Credit to agriculture has improved with the demise of the state-owned bank which had lent large amounts to the larger landowners which were in arrears.

5. Significant Shortcomings (including non-compliance with safeguard policies):
This satisfactory project could have been even better had it focussed more on monitoring and evaluation and performance indicators. Note that Annex 1 of the ICR (key performance indicators/Log Frame Matrix) is blank, reflecting the lack of focus in the President's report on this subject. Performance indicators such as level of credit outstanding in the agriculture sector or other indicators of financial deepening would have been useful. However, the useful and complete Status of Policy Actions (annex 8 of the ICR) somewhat compensates for this omission.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Satisfactory	
Institutional Dev.:	Modest	Modest	
Sustainability:	Likely	Likely	
Bank Performance:	Satisfactory	Satisfactory	
Borrower Perf.:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. In privatization of banking assets, sequential auction of individual branches (as occurred with BANADES) is an approach which allows privatization of a large state bank while ensuring continuity of service . 2. Performance indicators should be included in all projects, and especially financial sector adjustment operations, to verify improvements in the economy. 3. On-site assisted inspections can be a very valuable tool to improve the Supervisory function for banks, train local staff and detect problem banks .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The ICR contains a great deal of useful information and gives a good picture of the problems faced in implementation and how they were overcome leading to a satisfactory outcome .