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**PROGRAM OF SUPPORT FOR BANKING REGULATION AND SUPERVISION****(TC-99-01-01-9)****EXECUTIVE SUMMARY**

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|------------------------------------|--|---------------|
| <b>Executing agency:</b>           | Central Bank of the Dominican Republic, with the participation of the Superintendency of Banks   |               |
| <b>Beneficiaries:</b>              | The Dominican Republic financial sector and the sector's savings depositors, the Superintendency of Banks, and the Central Bank of the Dominican Republic  |               |
| <b>Program cost and financing:</b> | MIF Window I:  | US\$1,300,000 |
|                                    | Local counterpart:   | US\$1,300,000 |
|                                    | Total:   | US\$2,600,000 |
| <b>Terms:</b>                      | Execution period:  | 24 months     |
|                                    | Disbursement period:   | 30 months     |
| <b>Objectives:</b>                 | The program's overall objective is to enhance the quality of financial intermediary regulation and oversight, with particular emphasis on bank regulation and supervision, to make the country's financial system sounder and more secure.   |               |
| <b>Description:</b>                | Specifically, the program aims to: (i) strengthen the approach to banking regulation and oversight by adjusting laws and regulations and inspection methods to the needs and characteristics of the Dominican Republic's financial system; and (ii) make oversight more efficient by improving human resources management and bringing in modern information systems. More sophisticated and efficient inspection methods will translate into effective oversight and enforcement authority. |               |

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| <b>Special contractual conditions:</b>    | As a condition precedent to the first disbursement of program funds, the following must be presented to the Bank's satisfaction: (i) an agreement signed by the Central Bank (CBDR) and the Superintendency of Banks (SB) setting out, at a minimum, each party's obligations in regard to the project's execution, how and on what conditions the SB will transfer to the CBDR the counterpart resources it is to furnish for the project, and how the two agencies will be involved in the Interagency Executing Unit (IEU); (ii) evidence that members of the IEU and Administrative Unit have been appointed, (iii) a detailed work schedule for the first 12 months of the project, and (iv) terms of reference for consultants to be hired according to that schedule. |
| <b>Exceptions to Bank policy:</b>         | None   |
| <b>Environmental and social review:</b>   | The Committee on Environment and Social Impact reviewed the program on 10 March 2000. Its recommendations are reflected in the program.  |
| <b>Retroactive counterpart financing:</b> | The CBDR has begun activities for the first component of Module 1 of the project. Accordingly, authorization is being sought to recognize up to US\$800,000 equivalent in CBDR outlays after 1 June 1999 to hire international consultants, for retroactive financing out of the local counterpart, provided that IDB policies and procedures were followed.   |

## I. COUNTRY AND PROJECT ELIGIBILITY

- 1.1 On 12 September 1994 the Donors Committee declared the Dominican Republic eligible for Multilateral Investment Fund (MIF) financing. The project proposed here qualifies for MIF funding under the Technical Cooperation Facility. The development of the country's private sector and investment promotion will be contingent on the solidity and efficiency of the financial sector. The project aims to strengthen the Superintendency of Banks (SB), taking into consideration its current operating linkages with the Central Bank of the Dominican Republic (CBDR).

## II. BACKGROUND

- 2.1 Throughout the 1990s, by way of the Financial Sector Reform Program (773/OC-DR) and its monitoring, the IDB afforded continuing support for the Dominican Republic's financial sector adjustment process. As that process unfolded, the country's authorities considerably strengthened the banking sector and improved the quality of bank regulation and oversight. Two highlights were a financial-sector reconfiguration that opened the door for commercial banks to offer a broad menu of services, and an increase in the range of services in which some other financial intermediaries could engage. Progress was also made on raising minimum capital requirements for creation of a banking institution, devising incentives for mergers, and setting a computer system in place to process financial data on the system and its borrowers. Other accomplishments have been some mechanisms devised to improve financial system disclosure and make for more transparent reporting. Thus, there has been satisfactory progress on one fundamental stage in the SB's modernization, and the US\$2 million SB institution-strengthening component of the above-mentioned finance sector program has been successfully carried through.
- 2.2 Even with the reforms brought in, some elements of this first part of the process need to be consolidated, to remedy weaknesses and strengthen banking system regulation and oversight in this sector that has grown by leaps and bounds since the mid-1990s, to contend with the challenges of globalization. The country's financial system is a complex apparatus that will require stepped-up efforts on the regulatory and oversight mechanisms fronts. Despite substantial consolidation of the system and the resulting sharp drop in number of financial institutions—from 523 in 1990 to 171 in 2000—there still are a plethora of institutions, with relatively little progress made on the oversight of financial groups using a consolidated supervision approach. Moreover, the pervasiveness of offshore operations makes for less than transparent information for supervision and analysis purposes.
- 2.3 Given all these considerations, in late 1998, after completion of the SB institution-strengthening component, the authorities asked the Bank for further technical assistance to **supplement program 773/OC-DR**, in order to implement a program to strengthen and modernize banking industry regulation and oversight in the

Dominican Republic. This is the object of the present proposal. The aim at this new stage is to have regulations issued to address more than just the risk assets of individual banking institutions, looking at the possibility of supervising financial conglomerates or groups, and at the same time to strengthen the SB's structure, management, and operating methods so it can efficiently cover areas other than on-site asset quality inspections, such as monitoring deposit and other liabilities and off-balance-sheet transactions, taking a comprehensive approach. The new program also addresses the need to regulate such issues as financial risks, consolidated supervision, and off-site inspection techniques, the latter area having been deferred during the initial stage of financial reform.

- 2.4 In addition to the above-mentioned goals, the authorities have included, in their new strategy, the need for in-house strengthening in the SB, such as designing and supporting a staff training program geared to the supervision objectives, fostering personnel policy and organizational changes to boost productivity, expanding and upgrading the agency's information technology base and, lastly, unburdening it of tasks that are spreading it too thin, such as managing a large bank-liquidation workload and overseeing numerous agents that pose little systemic risk.
- 2.5 Against this backdrop, the Government of the Dominican Republic requested MIF support to put together and implement its new program to support the SB, as the oversight agency, and the Central Bank as financial system regulator, in order to quicken the pace of the design and implementation of bank regulation and oversight mechanisms and, in parallel, upgrade the technical and operational skills of SB staff. On 21 September 2000 the authorities recently appointed by the new government conveyed in writing their commitment to seeing this project implemented, and requested its approval.
- 2.6 **Other IDB operations in the Dominican Republic.** The Financial Sector Reform Program (773/OC-DR) mentioned earlier is still under way. Two of the three tranches have been disbursed. As to eligibility for release of the third tranche, the new authorities have indicated their desire to have these funds disbursed, and have offered to proceed with the requisite measures, in particular, adoption of the new Monetary and Financial Code currently before the Congress. An important consideration in this regard is that the US\$2 million SB institution-strengthening component of the aforementioned sector program was carried through in its entirety.

### III. PROJECT DESCRIPTION

#### A. Objectives

- 3.1 The program's overall objective is to enhance the quality of financial intermediary regulation and oversight, with particular emphasis on bank regulation and

supervision, to make the Dominican Republic's financial system sounder and more secure. Its specific aims are to: (i) enhance the approach to banking regulation and oversight by adjusting laws and regulations and inspection techniques to the needs and characteristics of the country's financial system; and (ii) make oversight more efficient by improving human resources management and bringing in modern information systems. More sophisticated and efficient inspection methods will translate into effective oversight and enforcement authority.

## **B. Activities**

### **1. Module I: Strengthening of regulation and development of modern supervision methods (US\$1,660,000)**

- 3.2 **Component 1.1. Development of comprehensive on-site supervision tools.** A priority of the SB and the CBDR is to develop methods for measuring the capital of complex financial groups. To that end, a comprehensive on-site supervision program needs to be designed, including: (i) adoption of a methodology package, with three model types, as a standardized tool with which to analyze an individual institution's condition, capital, and earnings and assess its prospects; (ii) an analysis of three major banks in the system, by performing an on-site audit of risk assets and applying the above-mentioned models to these institutions; (iii) training of SB inspectors and analysts in the new methodology and use of the models, and (iv) devising a menu of recommendations that the authorities could adopt to help strengthen the financial condition and capital base of financial institutions that experience liquidity or solvency problems.
- 3.3 **Component 1.2. Strengthening regulation.** Under this component, a study will be done of current Monetary Board and SB standards and rules, to identify gaps, contradictions, or provisions that run counter to sound financial principles. The study is to put forward specific recommendations as to the need to harmonize, modify or supplement current regulations and standards, and drafts will be produced accordingly. More specifically: (i) all current laws and standards will be analyzed, including regulations governing environmental impact risks of the banking system; (ii) an Accounting Manual for Financial Institutions will be prepared; (iii) the SB's role as liquidator of financial institutions taken over will be examined; and (iv) other supplementary activities.
- 3.4 **Component 1.3. Enhancing the quality of oversight and inspection methods.** The SB's operation will be reviewed to set up the structures it needs to perform its functions. Apart from this broader examination, the agency's comprehensive inspection mechanisms will be refined by: (i) instituting a systematic off-site analysis and supervision model; (ii) reviewing and modernizing the SB's comprehensive examination operations; (iii) reviewing and updating SB inspection manuals; (iv) developing consolidated oversight mechanisms; and (v) creating the infrastructure needed to track and supervise compliance with regulatory limits.

## **2. Module 2. Strengthening management of the Superintendency of Banks (US\$940,000)**

- 3.5 **Component 2.1. Basic organization of the Superintendency of Banks and personnel management.** The SB's organization chart will be reviewed to define its core functions and delineate responsibilities. A policy and permanent procedures will be devised for periodic staff grading exercises, to come up with objective criteria as to responsibilities in each position and a policy on merit- and skills-based promotions and termination. A study will be conducted to determine, using objective criteria, the agency's real personnel needs and how to allot personnel within the organization, with particular attention to the proposed new structure, bringing in a system of pay scales that match the market. A triannual training program will be set up for technical officers.
- 3.6 **Component 2.2. Systems development plan.** Computerized information systems designed under the Financial Sector Reform Program will be upgraded to build in new advances in technology. This will entail a small outlay (US\$385,000) to make existing software and hardware more efficient so data can be put on-line, preferably in real time or, if that is not feasible, with minimal lag time. The plan is to look at increasing the number of servers and enlarge current server capacity, bring in more computers, terminals and laptops and data communication equipment, and hire consultants as necessary to upgrade software and systems applications. Also planned are improvements and additions to the SB's Financial Statements Unit and optimization and enlargement of the database on borrowers. In parallel, an on-line system with the CBRD and the banking system will be set up.

## **IV. EXECUTING AGENCY AND BENEFICIARIES**

- 4.1 By law, the CBDR is the nation's financial system regulator and the SB oversees financial institutions. For the system to operate well, the two agencies need to coordinate their work, which they do by means of frequent formal and informal consultations.
- 4.2 **Implementation.** The CBDR would be the executing agency for the proposed project, with the SB participating, given the current institutional arrangement in the Dominican Republic in which the SB is the supervisory agency and the CBDR is the financial system regulator. To expedite the ongoing interagency cooperation that will be needed for the technical facets of the project, an Interagency Executing Unit (IEU) will be set up, coordinated by a senior Central Bank official and with two other officials representing the Central Bank and the Superintendency, who will be in charge of technical management of the project. The IEU would need a permanent, senior-level technical advisor for decision support on bank regulation and supervision issues. That advisor will also provide guidance on requirements for the different consultants to be hired and on their terms of reference. Administrative

responsibility for the project would rest with the planned Administrative Unit (AU), reporting to the CBRD's International Department. This unit's functions are listed in paragraph 7.4. Appointment of IEU and AU members will be a condition precedent to the first disbursement of project funds.

- 4.3 The IEU will make all decisions relating to the core technical elements of the program's operation, i.e., the required sequencing of program activities, drawing up consultants' terms of reference, selecting the most suitable consultants or consulting firms, monitoring work performed by the consultants and ongoing projects, and, lastly, accepting and checking quantities of work undertaken for the program.
- 4.4 As a condition precedent to the first disbursement of project funds, the Bank will require evidence that the CBRD and SB have signed an agreement setting out, at a minimum: (i) each party's obligations vis-à-vis the project's execution; (ii) how and on what conditions the SB will transfer to the CBRD the counterpart resources it is to furnish for the project, and (iii) how the two agencies will participate in the IEU.
- 4.5 **Procurement.** The CBRD will follow Bank rules for all procurements of goods and services required for the project's implementation.

## V. COST AND FINANCING

- 5.1 It is anticipated that the project would cost US\$2.6 million in all, US\$1.3 million to be furnished by the MIF and a local counterpart contribution in that same amount. The counterpart would be made up of US\$800,000 from the CBRD and US\$500,000 from the SB (the latter sum including US\$50,000 in kind). The following table shows the planned breakdown by activity and source of funds.

|                  | Activity  | Counterpart | MIF         | Total       |
|------------------|---|-------------|-------------|-------------|
| <b>Module I</b>  | <b>Regulatory strengthening and development of modern oversight methods</b>               |             |             |             |
| 1.1              | Development of tools for comprehensive oversight  | US\$800,000 |             | US\$800,000 |
| 1.2              | Strengthening of regulations and laws   | US\$120,000 | US\$310,000 | US\$430,000 |
| 1.3              | Enhancing the quality of supervision and inspection methods                               | US\$120,000 | US\$310,000 | US\$430,000 |
| <b>Module II</b> | <b>Strengthening management and boosting productivity of the Superintendency of Banks</b> |             |             |             |
| 2.1              | Basic organization of the Superintendency of Banks and personnel management               | US\$ 35,000 | US\$170,000 | US\$205,000 |
| 2.2              | Systems development plan  | US\$ 70,000 | US\$315,000 | US\$385,000 |

|  | Activity  | Counterpart          | MIF                  | Total                |
|--|---|----------------------|----------------------|----------------------|
| <b>Module III<br/>Operational<br/>elements</b> | <b>Project implementation: operational and<br/>execution elements</b> |                      |                      |                      |
|  | Advisory support for the technical<br>cooperation                     | US\$130,000          | US\$70,000           | US\$200,000          |
|  | Logistical support  | US\$ 25,000          |                      | US\$ 25,000          |
|  | Midterm report (external evaluator hired by<br>the Bank)              |                      | US\$20,000           | US\$ 20,000          |
|  | Contingencies   |                      | US\$105,000          | US\$105,000          |
|  | <b>TOTAL</b>  | <b>US\$1,300,000</b> | <b>US\$1,300,000</b> | <b>US\$2,600,000</b> |

## VI. RATIONALE AND RISKS

### A. Rationale

- 6.1 The proposed program of support for banking supervision and regulation is a mechanism for consolidating the reforms being pursued by the authorities of the Dominican Republic, as well as a vehicle for Bank dialogue with the country authorities. It thus complements the Financial Sector Reform Program (773/OC-DR). It is entirely in line with the Bank's strategy for the Dominican Republic set out in the country paper for 2000-2002. Experiences around the world have pointed up the importance of efficient bank oversight as a requisite for a sound, efficient banking system, which is in turn a requisite for sustainable economic growth. For developing countries to become and remain competitive in the global marketplace, their banking industries have to be sound and reliable. Without the right kind of oversight, this cannot occur. Strengthening bank supervision by the SB and bank regulation by the CBDR, as envisaged in this project, is a major step forward that will unquestionably lead to true improvements in the banking sector, and ultimately help the economy grow.

### B. Risks

- 6.2 The current institutional arrangement for regulation and oversight reflects the measures the Monetary Board has been taking, as the CBDR's maximum authority, while awaiting approval of the Monetary and Financial Code. **To secure the greatest possible benefit** from the project, there would be a need to update and modernize the legal and institutional framework in which the monetary and supervisory authorities operate. In the absence of a modern legal, regulatory, and supervision framework there is a risk that unsound banking practices will be validated and ultimately be a drain on the treasury. The specific program proposed here can be carried out even without a CMF, by way of Monetary Board and SB regulations, as in practice has been the case; but the SB's limited de facto enforcement powers would remain an issue. The aforementioned practice is a way



of mitigating the risk of having no new legal framework in place, but it should be borne in mind that the proposed program is, precisely, a tool for dialogue to foster reforms.

## VII. EVALUATION AND MONITORING

- 7.1 **Monitoring.** As a condition precedent to the first disbursement of funds, the CBRD is to present a detailed work schedule for the first 12 months of the project. The AU is to present monthly reports to the IEU on budget execution for the program, and satisfy all the Bank's reporting requirements.
- 7.2 For project monitoring purposes, apart from the monthly reports from the AU, the CBRD will present regular semiannual reports (within 30 days after the end of each six-month reporting period) showing the status of each of the program's components, and a summary of work produced by each consultant. The CBRD will be supported by the IEU in this task. The format for the semiannual reports will be worked out with the Country Office in the Dominican Republic. Within three months after the last disbursement, the CBRD is to submit a completion report on the project.
- 7.3 The Bank will engage an external consultant to perform a midterm evaluation, paid for out of the US\$20,000 budgeted in the project for this purpose. The evaluation will be conducted when 50% of the MIF funds have been disbursed. All reports will be delivered to the Governor of the Central Bank, the Superintendent of Banks, and the IDB.
- 7.4 **Accounting and audits.** The AU will be responsible for: (1) setting up and maintaining effective accounting, financing and internal controls and maintaining filing systems that can identify in detail the sources and uses of program funds; the program records must contain at least the following: (i) identification and source of funds; (ii) information on program expenditures, distinguishing between MIF funds and funds from other sources, and (iii) details to identify goods procured and services hired; (2) opening separate bank accounts to administer the MIF contribution and local counterpart funds; (3) processing disbursement requests and expenditure statements that substantiate the requests, adhering to the Bank's disbursement procedures; (4) preparing and submitting monthly reports; and (5) preparing the program's final audited financial statements and presenting them to the Bank.
- 7.5 **Status of the project.** Since the first quarter of 1999, the authorities in the Dominican Republic have been working with an international consultant paid for by the Bank to draw up general guidelines for the program described here. The consultant's report contains the main elements for each of the project's core components, so terms of reference for the consultants to be hired can be firmed up

without delay (before the end of December 2000). The authorities also have undertaken to appoint the IEU members quickly (by the end of November 2000).

### **VIII. ENVIRONMENTAL AND SOCIAL IMPACT**

- 8.1 The program was reviewed by the Committee on Environment and Social Impact on 10 March 2000. The committee's chief recommendation was to include in the review of current laws, as part of prudential standards on handling and managing bank risks, the presentation of environmental permits or licenses in the case of industrial or construction projects that require such authorization. Consequently, the terms of reference for reviews of legislation and regulations must include provisions with respect to environmental liability and management.

### **IX. RETROACTIVE RECOGNITION OF EXPENDITURES**

- 9.1 The CBRD has already begun work on activities for the first component of Module I of the project, because it has assigned high priority to averting and having early warnings of problems in the financial system. Accordingly, authorization is being sought for retroactive recognition of up to US\$800,000 equivalent in outlays by the CBRD after 1 June 1999 to hire international consultants, for financing against the local counterpart, provided that IDB-MIF policies and procedures were followed.

### **X. SPECIAL CONTRACTUAL CONDITIONS**

- 10.1 The following will be special conditions precedent to the first disbursement: (i) signature of an agreement, satisfactory to the Bank, between the CBDR and the SB on the terms specified in paragraph 4.4; (ii) appointment of members of the IEU along with the permanent advisor and the AU; (iii) submittal of a detailed work schedule for the first 12 months of the project, and (iv) terms of reference for consultants to be hired according to the schedule.

**PROGRAM OF SUPPORT FOR BANKING REGULATION AND SUPERVISION  
LOGICAL FRAMEWORK**

| <b>Objectives</b>   | <b>Indicators</b>  | <b>Means of verification</b>   | <b>Assumptions</b>  |
|---|--|--|---|
| <b>AL:</b><br>Improve the quality of regulation and oversight of financial intermediaries, with particular emphasis on bank regulation and supervision                                      | 1.1 By the end of the project (June 2003), the financial sector has efficient consolidated supervision, better tools for comprehensive oversight, strengthened regulation and oversight, better-quality supervision and inspection methods, a newly organized Banking Superintendency (SB), personnel management based on modern principles of human-resources management, and better systems with which to run quicker and more sophisticated analyses of bank financial information. | 1.1.1 Publication of all associated standards, regulations, by-laws and manuals by the Monetary Board, Central Bank (CBDR), and SB.<br><br>1.1.2 Regular, timely information published by the SB and CBDR on the financial condition of the banking system and individual banks. | (a) The authorities having jurisdiction issue all necessary standards and regulations, and the banking system complies fully with them. |
| <b>RPOSE:</b><br>Institutional strengthening of the SB, and updating and modernization of the regulatory and supervision framework, so as to approximate internationally accepted standards | 1.1 By the end of the project, banking regulation and supervision are more efficient, thanks to revised laws and regulations and inspection methods, in accordance with the needs and characteristics of the financial system of the Dominican Republic.   | 1.1.1 Published regulations and manuals that ensure that the SB has legal authority and sound supervisory methods.   | (a) All necessary standards and regulations are issued and published.   |

| Objectives   | Indicators  | Means of verification   | Assumptions  |
|--|---|---|--|
|  | 1.2 By the end of the project, SB staff have gained technical expertise, so that the enhanced inspection methods can translate into real oversight and enforcement authority. The SB creates conditions conducive to hiring and retaining essential staff.  | 1.2.1 Evaluation reports and staff grading. Also, skilled human-resources on staff  | (b) SB adopts and applies human-resources management principles.   |
| <b>COMPONENTS:</b><br>Development of comprehensive oversight tools<br><br>Strengthening of regulation<br><br>Enhancing the quality of supervision and inspection methods<br><br>SB basic organization and personnel management | 1.1 Evaluation reports are prepared on the methods now being used, and those methods are updated and modernized as needed.<br><br>3.1 A procedures manual is in place<br><br>4.1 By the time this component's activities have been completed, SB has been reorganized, with areas of responsibility clearly delineated and accurate position descriptions.<br><br>4.2 Upgrading courses are held and a continuing training program is in place, such that by June 2003 when the project ends, at least 40% of technical staff have received training. | 1.1.1 Consultants' final reports<br>Reports of supervisor visits SB publications<br><br>4.1.1 Manual of functions and responsibilities<br>Reports on IMF/BIS-type visits to check compliance with international standards<br><br>4.2.1 Published associated documentation | (a) The authorities adopt all pertinent regulations.<br><br>(b) SB reengineers its organization and adopts and adheres to a human-resources management system. |

| Objectives  | Indicators   | Means of verification   | Assumptions  |
|---|--|---|--|
| Systems development plan  | 5.1 By June 2003 when the project ends, at least 60% of the technology base of SB's systems, data processing and communications is updated.  | 5.1.1 SB publishes timely information on all the financial intermediaries it supervises.  | (c) Bids for hardware and software applications contracts are received from at least three international firms.  |
| Administration of the technical cooperation   | 6.1 The IEU is created by 30 November 2000.<br>6.2 A permanent external advisor is hired by 1 January 2001.  | 6.1.1 Periodic activity and progress reports. Mid-term evaluation and final report on the project   |  |
| <b>ACTIVITIES:</b><br><b>Development of comprehensive supervision tools</b><br>Hiring of a consultant to review inspection methods for evaluating current and future solvency of banks<br><br>On-site risk-asset inspection using modern standards, for at least two banks that are representative of the country's bank system<br><br>Training of SB inspectors and analysts in application and use of the new methods<br><br>Development of recommendations to strengthen capital and financial condition of institutions with liquidity or solvency problems | 1.1 Consultant's report. By December 2002 SB has published a standard-form assessment of each bank's capital position, earnings and prospects.<br>2.1 Supervision reports adequately reflect the use of the new methods.<br>3.1 By December 2001, at least 30% of supervisors have participated in upgrading courses and seminars.<br>4.1 By the end of the project, SB has issued standards in these areas. | 1.1.1 Development and design of standards and regulations to assess and give early warning of market risks.<br><br>2.1.1 On-site inspections conducted. Report on the IEU verification visit.<br>SB files<br>3.1.1 Instructional materials used<br><br>4.1.1 Reports on SB visits | (a) Timely periodic reporting by financial institutions<br><br>(b) SB produces and publishes information on the condition of the banking system.<br><br>(c) Instructors are persons of recognized expertise.<br><br>(d) The financial system obeys regulations in these areas. |
| <b>Strengthening regulation and legislation</b><br>Review of all current standards and regulations  | 1.1 By December 2001, the consultant has produced a report on the review of current regulations  | 1.1.1 IEU and Country Office files  | (a) Congress adopts the new CMF  |

| Objectives  | Indicators   | Means of verification                                | Assumptions   |
|---|--|--|---|
| Preparation of regulations needed for development and implementation of the new Monetary and Financial Code (CMF) | 2.1 Within six months after approval of the CMF, the consultant has produced a report with regulations needed to develop and implement the CMF. Publication of norms | 2.1.1 Publication of the CMF in the Official Gazette | (b) Banks adhere to the new Accounting Manual.                              |
| Review and updating of the Accounting Manual for Financial Institutions   | 3.1 By June 2002, SB publishes the new Accounting Manual.  | 3.1.1 SB publications                                | (c) The authorities adopt a clear policy regarding SB's role as liquidator. |
| Definition of the SB's role in liquidation of banks whose operations have been taken over                         | 4.1 At the end of the project, SB presents the authorities with the changes needed to follow through on recommendations in the consultant's report.                  |  |   |
| Enhancing the quality of supervision and inspection methods   | 1.1 By the end of the project, all reports on SB visits are applying the models developed. Penalties levied for noncompliance with regulations.                      | 1.1.1 SB reports                                     | (a) SB acquires true enforcement powers.                                    |
| Effective implementation of a systematic off-site analysis and supervision model                                  |  |  |   |
| Review and updating of SB's comprehensive inspection system   | 2.1 By the end of the project at least 50% of supervisors are equipped to perform comprehensive inspections using the new methodology.                               | 2.1.1 IEU and Country Office files                   |   |
| Review and updating of SB inspection manuals  | 3.1 By the end of the project, SB has new inspection manuals.  | 3.1.1 IEU and Country Office files                   |   |
| Development of tools for consolidated supervision   | 4.1 By the end of the project, supervisors are equipped to produce consolidated supervision reports.   | 4.1.1 IEU and Country Office files                   |   |
| Creation of infrastructure needed to monitor and inspect compliance with limits in standards                      |  |  |   |

| Objectives  | Indicators   | Means of verification  | Assumptions  |
|---|--|--|--|
| <b>Review of SB organization and personnel management</b>                     |  |  |  |
| Review and updating of SB organizational structure                            | 1.1 By December 2002, a new SB organization chart is published and appropriate structures are created.   | 1.1.1 IEU and Country Office files. Adherence to itemized IEU timetable for this component | (a) SB reviews its true personnel needs.                                       |
| Reengineering of SB areas and functions                                       | 2.1 By June 2002, SB has manuals delineating areas of responsibility and position functions.   | 2.1.1 IEU and Country Office files   | (b) SB adopts and follows staff promotion and grading policies and procedures. |
| Preparation of a comprehensive human-resources management plan                | 3.1 By the end of the project, SB has a modern Human Resources Department and publishes (at least in-house) a ranked establishment table.                | 3.1.1 Personnel evaluation and grading systems developed                                   |  |
| Preparation of a triannual training plan for technical staff                  | 4.1 By June 2003 when the project ends, at least 50% of technical staff has received training.   | 4.1.1 Promotion and publicity on the program<br>SB reports                                 |  |
| <b>Information systems development plan</b>                                   |  |  |  |
| Review and updating of communication systems applications                     | 1.1 By the end of the project, data processing times have improved and timely information is being published on all supervised financial intermediaries. | 1.1.1 On-line communications system set up with CBDR and commercial banks                  |  |
| Hardware procurement and upgrading  | 2.1 By the end of the program, number of computers per employee is at least 40% higher than the June 2000 ratio.   | 2.1.1 Detailed hardware inventory  |  |
| Review, upgrading and development of systems and data processing applications | 3.1 By June 2003 when the program ends, financial reporting requirements recommended in international manuals are being adhered to.                      | 3.1.1 IEU and Country Office files   |  |
| Review and modernization of the borrower database                             | 4.1 By the end of the program there is current, periodic information covering at least 50% of the bank system portfolio.                                 | 4.1.1 SB reports   | (a) The banking system furnishes the required information in a timely manner.  |

| Objectives  | Indicators   | Means of verification              | Assumptions  |
|---|--|------------------------------------|--|
| administration of the program<br>Setup of the IEU               | 1.1 By December 2000 the IEU has presented a detailed timetable for execution of all activities slated for 2001.   | 1.1.1 Periodic reports             | (a) By December 2000 the SB and BCRD sign an agreement to execute the program, setting out <i>inter alia</i> the IEU's and Administrative Unit (UA)'s responsibilities and the function of the permanent external advisor to be hired. |
| Hiring of a permanent external consultant as advisor to the IEU | 2.1 The UA presents monthly reports on the program's budget execution and satisfies all IDB-MIF reporting requirements.<br>2.2 IEU presents semiannual reports, within three months after the end of each calendar half-year, and a summary of work produced by all consultants.<br>2.3 The Bank commissions the mid-term evaluation once 50% of the MIF funds have been disbursed. The final report is presented within six months after the last disbursement. | 2.1.1 IEU and Country Office files |  |



**PROPOSED RESOLUTION**

**DOMINICAN REPUBLIC. NONREIMBURSABLE TECHNICAL COOPERATION  
FOR BANKING REGULATION AND SUPERVISION SUPPORT**

**The Donors Committee of the Multilateral Investment Fund**

**RESOLVES:**

1. That the President of the Inter-American Development Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Multilateral Investment Fund, to enter into such agreements as may be necessary with the "Banco Central de República Dominicana" and to take such additional measures as may be pertinent for the execution of the donor's memorandum referred to in Document MIF/AT- with respect to a technical cooperation for a banking regulation and supervision support.
2. That up to the amount of US\$1,300,000, or its equivalent in other convertible currencies, is authorized for the purpose of this resolution, chargeable to the resources of the Technical Cooperation Facility of the Multilateral Investment Fund.
3. That the above-mentioned sum is to be provided on a nonreimbursable basis.