NEPAL RASTRA BANK

in 50 years

2005

"While expressing our unflinching faith in multi-party democracy, we would like to mention that economic and institutional reforms will continue. Efforts at reforms in the utilisation of public expenditure and public service delivery will be made more effective. Banking discipline will be restored. Measures will be adopted towards the effective implementation of the poverty reduction strategy and the anti-corruption drive. Sustainable development is now our national agenda."

– His Majesty King Gyanendra Bir Bikram Shah Dev

Nepal Rastra Bank
in
Fifty Years

Nepal Rastra Bank
Kathmandu, Nepal

July 2005

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His Majesty King Gyanendra Bir Bikram Shah Dev

Her Majesty Queen Komal Rajya Laxmi Devi Shah

Governor Bijaya Nath Bhattarai

Foreword

On the auspicious occasion of the 59th birthday celebrations of His Majesty King Gyanendra Bir Bikram Shah Dev and also to mark the Golden Jubilee Year of the establishment of the Nepal Rastra Bank (NRB), this publication, 'Nepal Rastra Bank in Fifty Years', has been brought out incorporating articles outlining the accomplishments of the NRB over the past five decades as well as the underlying issues and agenda for the future.

In the course of the past 50 years, since His Late Majesty King Mahendra inaugurated the Bank on April 26, 1956, the institution has gone through fundamental transformation in its objectives, functions and other organizational and managerial features. Constantly remaining at the centre of the Nepalese financial system, Nepal Rastra Bank by now has emerged as one of properly institutionalized central banks of the South Asian region. During the early period of the Bank's establishment, its role had been focused on increasing the circulation of the Nepalese currency throughout the Kingdom, developing the domestic banking system and stabilizing the exchange rates of the Nepalese currency. Since then, the domestic financial system has broadened, deepened, diversified and witnessed qualitative changes in the product and service deliveries. From a single banking institution then, the system has now almost 200 institutions, with services largely diversified and, at the same time, integrating our economy with the global one. Establishment of the banks with foreign participation, convertibility of Nepalese currency in the current account transactions, initiation of the practice of the formulation and dissemination of the monetary policy on an annual basis, formulation and implementation of intensive regulatory and supervisory system and norms of the international standards and Nepal's accession to the World Trade Organization are same of the tenets of the Bank to assimilate it with the global financial fraternity.

To capture this dynamic environment and ensure domestic financial health and stability as a part of the ongoing reform in the financial system, a new NRB Act, 2002 was enacted which has provided more autonomy, authority and accountability to the core central banking functions. Since then, the supervisory, oversight and regulatory functions of the Bank have been enhanced considerably. The latest initiatives towards qualitative improvement in the ongoing expansion of the financial system based on market-oriented healthy competition have definitely added new milestones in developing and nurturing a financial system that would surely contribute to the sustainable growth of the economy with overall macroeconomic stability. As the Bank celebrates its Golden Jubilee, a publication cursorily capturing its evolutionary process of the Bank itself and that of the domestic financial system is a timely and pertinent effort.

This compendium of comprehensive research articles is an endeavor to cater to the needs of both academic and general readers having interest in the central banking functions. This publication incorporates important topics dealing with the overall functions and responsibilities of the central bank in the context of the evolving features and challenges of the Nepalese financial system. I am confident that these writings by the respective experts on the subjects would not only enlighten the readers about the depth and breadth of the subject matter but would also facilitate informed policy/decision-making for improving the health of the Nepalese financial system and accelerating the pace of economic development in Nepal.

This publication would not have taken its present form without the commendable efforts undertaken by Mr. Lekh Nath Bhusal, Deputy Governor and Coordinator, Nepal Rastra Bank Golden Jubilee Anniversary 2005, Programme Implementation Committee, and Mr. Tula Raj Basyal, Executive Director and Coordinator, Publications Sub-Committee, along with the members of the Sub-Committee. I would like to thank all the contributors for the depth and diversity of the ideas and analyses reflected in the publication. I would also like to express my profound gratitude to all past and present employees of Nepal Rastra Bank for guiding the establishment to this milestone.

I am particularly rejoiced to bring out this historic publication on the auspicious occasion of His Majesty's 59th Birthday Celebrations, so happily coinciding with the Bank's Golden Jubilee Annual Events.

July 7, 2005 (**Bijaya Nath Bhattarai**)

Governor

Content

PART III

MACROECONOMY

Acronyms

ACS	APRACA Consultancy Services
ACU	Asian Clearing Union
ADB	Asian Development Bank
ADB/N	Agriculture Development Bank of Nepal
ADF	Asian Development Fund
ADF	Augmented Dickey Fuller
ALCO	Asset-Liability Management Committee
AMC	Assets Management Corporation
APRACA	Asian Pacific Regional Agricultural Credit Association
APROSC	Agriculture Projects Services Centre
ATM	Automated Teller Machine
BAFIO	Banks and Financial Institutions Ordinance
BCBS	Basel Committee on Banking Supervision
BFI	Banks and Financial Institutions
BFIO	Banks and Financial Institutions Ordinance
BIMST-EC	Bank of Bengal Initiative for Multi-Sector Technical and Economic Cooperation
BIS	Bank for International Settlements
BLUE	Best Unbiased Linear Estimates
BOP	Balance of Payments
BOD	Board of Directors
BR	Bank Rate
BTC	Banker's Training Center
CARD	Credit Administration and Review Division
CAS	Country Assistance Strategy
CBPASS	Commercial Banks Problem Analysis and Strategy Study
CBS	Central Bureau of Statistics
CBs	Commercial Banks
CC	Credit Committee
CDB	Co-operative Development Bank
CFG	Corporate and Financial Governance
CIB	Credit Information Bureau
CICTAB	Centre for International Co-operation and Training in Agricultural Banking
CIT	Citizen Investment Trust
CPC	Corporate Planning Committee
CPI	Consumer Price Index
CRR	Cash Reserve Ratio
CRRDB	Central Regional Rural Development Bank
CSI	Cottage and Small Scale Industries
CSP	Country Strategy Programme
CST	Co-ordination and Support Team
DER	Dual Exchange Rate
DFID	Department for International Development, UK
DFIs	Development Finance Institutions
DICG	Deposit Insurance and Credit Guarantee Corporation
DORT	Directors of Research and Training
DRT	Debt Recovery Tribunal
DSCP	Deprived Sector Credit Program
DTT	Deloitte Touché Tohmatsu
EDFI	European Development Finance Institution
EPF	Employees' Provident Fund
EPU	European Payments Union
EPZ	Export Processing Zones
ERRDB	Eastern Regional Rural Development Bank
ESAF	Enhanced Structural Adjustment Facility
ESC	Economic Services Centre
ESCAP	Economic and Social Commission for Asia and the Pacific, UN
EXCO	Executive Committee of the South-East Asian Voting Group
FAO	Food and Agriculture Organization
FCGO	Financial Control General's Office
FEDAN	Foreign Exchange Dealers Association
FICOOPs	Financial Cooperatives
FINGOs	Financial Non-Governmental Organizations
FSI	Financial Stability Institute
FSRP	Financial Sector Reform Program

FSRSP	Financial Sector Reform Strategy Paper
FSTA	Financial Sector Technical Assistance
FSTAP	Financial Sector Technical Assistance Project
GAB	General Arrangements to Borrow
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
HBS	Household Budget Survey
HMG	His Majesty's Government
HRM	Human Resource Management
IBIS	Integrated Bank Information System
IBRD	International Bank for Reconstruction and Development
IC	Indian Currency
ICCMT	ICC Bank Management Team
ICSID	International Center for Settlement of Investment Disputes
ICU	International Clearing Union
IDA	International Development Association
IFAD	International Fund for Agriculture Development
IFC	International Finance Corporation
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commission
IRe	Indian Rupee
IRs	Indian Rupees
KMO	Kathmandu Main Office
L/C	Letter of Credit
LDCs	Least Developed Countries
LFR	Long Form Reports
M1	Narrow Money
M2	Broad money
MCSC	Micro Credit Summit Campaign
MDGs	Millennium Development Goals
MFA	Multi-Fiber Arrangement
MFN	Most Favoured Nation
MIGA	Multilateral Investment Guarantee Agency
MIS	Management Information System
MOF	Ministry of Finance
MOLD	Ministry of Local Development
MR	Mean Ratio
MST	Monitoring and Surveillance Team
NARC	National Agriculture Research Centre
NBL	Nepal Bank Limited
NC	Nepalese Currency
NEFISCO	Nepal Finance & Saving Company
NEPSE	Nepal Stock Exchange Limited
NIC	National Insurance Corporation
NIDC	Nepal Industrial Development Corporation
NPA	Non-Performing Assets
NPC	National Planning Commission
NPEDC	National Productivity and Economic Development Centre Limited
NPL	Non-performing Loan
NRB	Nepal Rastra Bank
NRe	Nepalese Rupee
NRs	Nepalese Rupees
OCR	Ordinary Capital Resources
OD	Organization Development
OGL	Open General License System
OLS	Ordinary Least Squares
OMOs	Open Market Operations
ORC	Organization Restructuring Committee
PEs	Public Enterprises
PRSP	Poverty Reduction Strategy Paper
PSC/L	Priority Sector Credit/Lending
RBB	Rastriya Banijya Bank
RBI	Reserve Bank of India
Repo	Re-purchase
RMD	Relation Management Division
RMDC	Rural Micro-Finance Development Center
RNAC	Royal Nepal Airlines Corporation
RRDBs	Regional Rural Development Banks
RSRF	Rural Self-Reliance Fund
SAACCOS	Savings and Credit Co-operative Societies
SACCOPs	Saving and Credit Cooperatives
SAEU	South Asian Economic Union
SAF	Structural Adjustment Facility
SAG	Special Assets Group
SAL	Structural Adjustment Lending
SAP	Structural Adjustment Program
SDR	Special Drawing Rights
SEACEN	South East Asian Central Banks Research and Training Center
SEANZA	South East Asia, New Zealand and Australia Central Banks' Association
SEBO	Securities Board
SER	Single Exchange Rate

SFDB	Small Farmers' Development Bank
SFDP	Small Farmer's Development Project
SHGs	Self-help Groups
SKBB	Sana Kisan Bikas Bank
SLR	Statutory Liquidity Ratio
SMC	Security Market Center
SME	Small and Medium Enterprise
SOEs	State-Owned Enterprises
STI	Second Tier Institutions
TBs	Treasury Bills
TLCC	Top-level Co-ordination Committee
TLDP	Third Livestock Development Project
TOR	Terms of Reference
VRS	Voluntary Retirement Scheme
WB	World Bank
WPI	Wholesale Price Index
WRRDB	Western Regional Rural Development Bank
WTO	World Trade Organization

Part I

Resource Management and Organization Development

Human Resource Management

Lekh Nath Bhusal

Deputy Governor

Introduction

Personnel management or human resource management is concerned with people in an organization and the management of human energy. Prior to 1970s, the term Human Resource Management (HRM) was hardly used to describe mainstream people management. The terminology - personnel management and personnel administration - were used in theory and organizational practices in the UK and the USA domain respectively. Since these terms are seldom used today, one might draw the logical interference that 'old style' personnel managers are replaced by new-style HRM managers.

In the early 1980's, a debate was initiated in the USA whether HRM was a new term for the supposedly old concept of personnel or whether it embodied something substantially different. In the beginning, many scholars were of the opinion that HRM was no more than new wine in the old personnel bottle. Subsequently, it was accepted that the concept of HRM reflected a paradigm shift, which has influenced over the last two and a half decades, both the way people were expected to act in organizations and the employer-employee relationships. This is not to say that the paradigm shift happened overnight; Shaun Tyson in 1995 pointed out that we have not moved from one steady, state called personnel to another steady, state called 'HRM'. In 1989, Korean Legge in her article argued that as organizations, most noticeably in the USA and the UK, attempted to cope with new competitive pressures and environmental forces, the vocabulary for managing their work forces tended to change. As a consequence, Personnel Management was slowly to be replaced by the Human Resource Management as the new terminology for the professionals.

The author does not want to make an in-depth discussion between the terminology, Personnel Management and Human Resource Management, but just wants to draw a logical interference that the external and internal challenges force an organization to change its style of management, not only the terminology. Having said this, the author would like to make a short reference to the financial sector of Nepal as it has the direct bearing on the HRM of the Nepal Rastra Bank (NRB).

The Nepal Bank Ltd., established in 1937, was the first bank in Nepal. Following this, the establishment of the NRB, the central bank, in 1956, was a major feature in the evolution and regulation of the financial system. The objective with which the central bank was set up was clearly spelled out in the preamble to the Nepal Rastra Bank Act 2012 B.S., as quoted below:

"Whereas it is expedient to ensure proper management of the issuance of the Nepalese currency notes, to make proper arrangement for the circulation of the Nepalese currency throughout the Kingdom and to stabilize the exchange rates of the Nepalese currency in order to maintain comfort and economic interest of the general public."

The institutional network and volume of operations of the financial system expanded and diversified, with the number of commercial banks increasing from 2 in 1984 to 17 at the present. The number of other financial institution has likewise experienced a quantum jump. These facts clearly raise the need for the change in the human resource composition qualitatively and quantitatively, both in the NRB and other financial institutions.

Manpower Structure of NRB: Yesterday

The NRB staff strength at the time of its establishment was 23. The Governor was assisted by the Chief Accountant, who headed the manpower structure, which comprised 5 officers and 16 non-officer-level staff, with the officer/non-officer ratio at 1:3.2. After 10 years of establishment, the number of staff reached 915, with the annual increment at 4.26 times – for officers 2.31 times and non-officers 5.40 times. The officer/non-officer ratio at that time was 1:7.47. The staff capacity over the years changed as follows:

1977-78 : Following a gap of next 10 years, the number of total staff reached 2135, the annual growth during this period being 13.3 percent. The growth in officer and non-officer level staff was 7.9 percent and 7.7 percent respectively, with the ratio of officer and non-officer staff at 1:10.1.

1987-88 : In the next 10 year, the number of total staff reached 2794, showing the annual growth of 3.1 percent, the growth of officer and non-officer level staff being 4.8 percent and 3.6 percent respectively. The ratio of officer and non-officer staff was 1:8.77.

1997-98 : It is surprising to observe that the number of these two categories of staff in the next 10 years showed a mixed trend – both a reduction and an increase in the numbers. In the year 1997, the number of staff was 2783, showing a marginal decline of 0.4 percent during the decade. An increase of 13.6 percent was recorded in officer level while a decline of 12.5 percent was recorded in the non-officer level staff during the decade, the ratio between the officer and the non-officer level staff being 1:7.47.

2005/06 : After a gap of eight years, the number of total staff is now 1664, with a decline of 4.9 percent annually, recording an increase of 3.1 percent in officer level and a decline of 5.8 percent in non-officer level. The ratio of officer and non-officer level staff is 1:3.10.

An analysis of the manpower structure reveals the following interesting facts:

- Between 1967/68 and 1977/78, there was a continuous yearly increase in officer level staff while, in the non-office level staff, a marginal decline had been recorded in the year 1976/77 and 1977/78.
- Between 1977/78 and 1987/88, an increasing trend was recorded both in the officer and the non-officer level up to 1986/87 while there was a marginal decline in 1987/88.
- The maximum number of staff was recorded in the year 1987/86, at 3227.
- Between 1987/88 and 1997/98, an increasing trend was observed in officer level up to 1993/94 while, in non-officer level, the increasing trend was observed up to 1994/95.
- In the year 1997/98, the number of both the officer and the non-officer level staff increased again.
- Between 1997/98 and 2005/06, the increasing trend in officer level and the decreasing trend in non-officer level staff was noted, with the exception in 1999/00 and 2001/02.

The above facts indicate that up to 1997/98, the human resource policy was not consistent while the reduction in the number of the non-officer level staff in a way reflects the focus on the professional staff required as per the ongoing organizational stages of mechanization and modernization.

Organizational Structure

At the time of the establishment, the organizational structure of the NRB was very simple. The structure was classified into 3 areas, viz., Central Office, Banking and Issue. In the Central Office, there were Accounts, Administration, Foreign and Research Sections. The structure was amended in the year 2015 B.S. The Sections were upgraded as Departments, as follows:

1. Administrative Department
2. Accounts Department
3. Foreign Agency, Exchange and Investment Department
4. Research and Statistics Department

5. Supervision and Inspection Department (new Department)
6. Kathmandu Banking Office
7. Issue Department

The first branch office was established in the year 1956 in Biratnagar. Up to the year 1965, NRB continuously expanded its structure, with the number of its offices outside the Kathmandu Valley reaching 24. There were 2 branches, 10 co-branches, 4 sub-branches and 6 depot level offices. After the establishment of Rastriya Banijya Bank (RBB) in 1966, NRB handed over a number of its exchange counters, depots, sub-branches, and co-branches to RBB.

In the beginning, the offices outside the Kathmandu Valley carried out the banking functions, Government transactions, foreign exchange and fund transfers as these function were the need of the period. As the development process of the country took its pace, Biratnagar, Birgunj, Siddharthanagar and some other cities developed as commercial centers and industrial towns. With the emerging network to collect economic statistics, the expansion of the commercial bank branch network and the need for faster economic growth, the Central Bank gave significant attention in collecting economic and financial statistics from the major cities and prominent agro-product areas of the country. The regular information feedback requirement was not possible through the Research and Statistical Department of the Centre alone. As a result, Regional Research Centres were established in the major branches of the NRB. In the year 1984, one additional unit named as Banking Development and Credit Unit was established which was later merged with the Regional Research Unit and was renamed as Research and Banking Unit.

The organization structure of the NRB has been amended a number of times. The Bank, which started with 3 Departments, has 17 Departments now. The creation and merger of Departments has also become the major highlight of the different amendments. Today, the organizational structure of the NRB is classified into 4 functional areas while the nomenclature of the Departments has been changed in accordance with the need of the period. The change in the organizational structure was an attempt to adapt to the change in external and internal environment. The change in the organization structure also reflected the need to change the manpower structure.

The NRB, right from the beginning, has given due consideration to the human resource management front. It may be recalled that NRB's human resource policy was then guided by the philosophy "Skill development is the major instrument for enhancing productivity". Thus, the first thrust of human resource policy was to recruit quality manpower and enhance their skill for optimum output. Some evidences can be traced to justify the aforesaid fact. In the year 1956, 2 staff were sent to Nepal Bank Limited (NBL) for the accounts training. Three staff were sent for foreign exchange training to India in the same year. In 1957, two senior officers were sent for SEANZA Central Banking Course and Note Issue and Banking Course in Australia and India respectively.

NRB's Human Resource Management: Today

Since the establishment of the NRB, the financial sector as well as the overall economy of the country showed a continuous development. External and internal environment changed. The last decade of the 20th century and start of the beginning of the 21st century observed tremendous growth in financial sector both in quantitative and qualitative fronts. Globalization and open market policy prompted the need for change in central bank functioning authority and responsibility.

Henceforth, the Nepal Rastra Bank Act 2012 B.S. was replaced by the Nepal Rastra Bank Act 2058 B.S. The Preamble to the new Act states:
"Whereas it is expedient to establish a Nepal Rastra Bank to function as the central bank to formulate necessary monetary and foreign exchange policies, to maintain price stability, to consolidate the balance of payments for sustainable development of the economy of the Kingdom Nepal and to develop a secure, healthy and efficient system of payments; to appropriately regulate, inspect and supervise in order to maintain the stability and healthy development of the banking and financial system and for the enhancement of public credibility towards the entire banking and financial system of the country."

If we compare the preamble of the previous and the present Acts, the need for appropriate change in human resource policy in NRB would be quite evident. The need for the change in the human resource policy was felt strongly and it was initiated mainly following the Royal Assent to the new Nepal Rastra Bank Act 2058 B.S. This process of change received pace and intensity from the year 2002, as described below:

Quantitative Analysis

There were 2338 staff members in the year 2001. Out of this, 84.3 percent staff comprised the non-officer level while only 15.7 percent were officers. The officer/non-officer ratio was 1:5.37. A decline of 7.7 percent in the number of staff was recorded in the year 2002 in comparison to that of the preceding year 2001. There was a marginal increase in the relative number of the officer level staff.

As a result, there was marginal improvement in officer/non-officer ratio in the year 2002 in comparison to the year 2001. The ratio stood at 1:4.32. There was a marginal growth of 0.4 percent in the total number of staff due to the increase in the officer level staff.

- In the year 2003, in comparison to the year 2002, a decline of 16.8 percent was noted in the total number of staff. The decline in non-officer level was 20.3 percent, resulting in further improvement in the officer/non-officer level ratio at 1:3.2.
- In the year 2004, there was further reduction in the total number of staff. The decline was of 10.5 percent, with the number of staff at 1664. The officer/non-officer ratio stood at 1:3.1.
- The introduction of the first Volunteer Retirement scheme (VRS) in the year 2001 marked 180 staff opting for the scheme.
- Due to extension of the VRS scheme up to July 2002, additional 101 staff opted for the scheme.
- Reintroduction of the VRS scheme in 2003 with additional benefits package resulted in 371 staff opting for the retirement.
- The third VRS scheme led 102 staff opting for the scheme in 2004.

The above-stated facts clearly reveal that the Bank's human resource policy is guided by the principle of 'optimum productivity by minimum possible level of staff'. Further decline in the non-officer level staff and improvement in the officer/non-officer level ratio indicates that the Bank is attracting more professional staff in its folds.

Service Period Analysis

It would also be useful to analyze the longevity of the service and its impact on productivity.

Above 30 years

Of the total staff, 5.3 percent belongs to this category. In officer level, the maximum number of this category is in the officer class 2 and in assistant level, the maximum number is in the assistant class 1.

26 to 30 years

7.8 percent staff falls under this category. Officer class 3 occupies the highest portion of this category.

21 to 25 years

14.6 percent staff falls under this category. An interesting observation of this category is that the assistant level staff predominates this category.

16 to 20 years

36.2 percent staff falls under this category, considered as the most productive one.

11 to 15 years

11.1 percent staff falls under this category.

6 to 10 years

16.0 percent staff falls under this category.

0 to 5 years

10.0 percent staff falls under this category

From the above-stated observations, it could be observed that following the implementation of the corrective action, viz., VRS, the manpower structure of NRB today is comparatively young and energetic.

Qualitative Analysis

- *Special class officer* : 6.3 percent, that is 1 person, is with Ph.D. degree while the rest are postgraduates.
- *1st class officers* : 6.7 percent, that is 3 officers, are with Ph.D. degrees, while 77.8 percent and 15.6 percent officers are post graduates and graduates respectively.
- *2nd class officer*: 2.7 percent officers are having Ph.D. degrees, 55.5 percent are postgraduates, 32.7 percent are graduates and 3.6 percents are under-graduates.
- *3rd class officer* : 46.3 percent officers are postgraduate, 33.5 percent are graduates, 10.2 percent are intermediates and 1.8 percent are SLC graduates.

Special class officers are having strong line up in case of experience and qualification whereas among first class officers 15.6 percent, among second class officers 36.4 percent and among third class officers 12.8 percent are having qualifications less than the required. This is one of the most serious concerns for human resource development aspect of the NRB.

Skill Development and Training Policy

The Bank has adopted a policy of providing higher education inside and outside the country for the employees in different levels. The following criteria have been fixed for implementing this policy:

- An employee who has completed 3 years of service and gets admission in any reputed university in approved subject could avail the education leave facility.
- Employees completing 3 years of service and their age not exceeding 45 years are eligible to appear in written examination conducted by the Bank for higher study. Bank sends the successful candidates to the reputed university and shoulders all the cost.
- 20 employees have availed of this facility during the last 5 years.
- As a provision of providing facility in professional degree studies such as CA, ACCA and CPA, the Bank provides study leave for the employees who have completed 3 years of service and are willing to study these courses. A total of 10 employees have availed of this facility during the last 5 years.

Recruitment, Placement and Transfer Policy

As human resource development is associated with the recruitment and retention of high quality people who are best fitted to fulfill the organization's goal, human resource management policy of NRB is directed towards recruiting and inducting high quality manpower and deploying them effectively. Following policy level steps have been undertaken in this direction:

- Curriculum for open written competition has been amended.
- Policy of inducting university toppers in business and economics and Ph.Ds has been implemented.

Placement

- The successful candidates inducted through open competition are placed in different departments on the base of merit list. The candidates who appear in upper merit list are posted in core departments such as Research, Bank and Financial Institutions Regulation, Supervision, etc., on priority basis.
- The employees who are promoted to officer level are placed in departments in accordance with their qualification and in consultation with the concerned department chiefs.

Transfer Policy

The Bank has implemented the following transfer policy. For transfer, it is expected to spend:

- Minimum 7 years' tenure in specialized departments such as Research, Regulation, Supervision, etc.
- 2 years' tenure in the department rendering supportive functions.
- 2 years' tenure in the offices outside the Kathmandu Valley. Transfer is done on the basis of seniority based on the tenure in the Kathmandu Valley offices only.

Some of the other major steps taken in human resource management of the Bank are as follows:

Out-Sourcing

Non-core functions are gradually outsourced such as cleaning, gardening, and running the canteen. The Bank has already taken the policy decision to outsource the Banker's Club, Dispensary, and Banker's Training Centre.

Enhancing the Level of Productivity

To pursue the Bank's objective of 'optimum productivity from minimum possible level of manpower', the following facts are worthy of consideration:

- The number of note bundles for counting and sorting has been raised by 25 percent.
- No new appointment to the assistant level for the last 4 years though there is significant reduction in the assistant level staff due to VRS.
- Work simplification and merger of sections in departments has enhanced the productivity with significantly less manpower, especially in the assistant level.
- Induction of professional manpower.

Policy of Mechanization

Human Resource Management Department has computerized the personnel data and is moving toward E-Human Resource Information System.

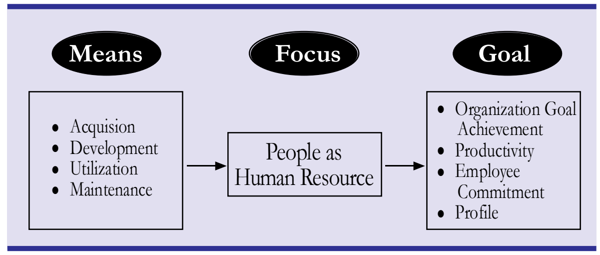
Retention

- Change in salary and allowances structure.
- Change in insurance bonus payment.

Conclusion

NRB's Human Resource Management has traveled a long journey from the Personnel Management of yesterday's to HRM of today. Though more needs to be done to enhance the productivity, induct more qualified and professional manpower, develop the skill and knowledge of existing staff, retain the good employees and adopt sound separation policy, the progress to-date seems satisfactory.

The HRM Model of the NRB in a nut-shell could be described through following diagram:



The Means—Focus–Goal, a well-defined HRM model, is in its initial phase of implementation. The challenges and opportunities will be dealt strongly, and it is hoped that the NRB will develop itself into a model institution of Nepal in not too a distant future.

Corporate Leadership

Bhola Ram Shrestha

Act. Executive Director, Financial Management Department

Introduction

An organization, a new entity or a running one, needs leadership to help achieve its stipulated and desired goals. To get things done properly and to run the organization without a hitch, the persons working at leadership level should possess several characteristics and qualities. John G. Glover has rightly defined leadership as " *…that outstanding aspect of management which manifests ability, creativeness, initiative and inventiveness, and which gains the confidence, cooperation and willingness of the people to work by organizing and building employee morale.*[1] In a business entity, leaders are necessary to provide guidance in the right direction. In this connection C.B. Mamoria observes the role of leadership as "*…the successful performance of the leadership role is essential to the survival of the business enterprise. Goods and services are to be provided, products and customers need to be united and the worker efforts require integration and coordination. The leader guides the actions of others in accomplishing these tasks.*[2] As said earlier, leadership is vital for any organization. However, the role of leadership is more so in resolving a problem that has emerged. C.B. Mamoria has shed light on the urgency of leadership to cope with a particular problem. One such instance is related to the problem of the Great Economic Depression for which the "*American people needed someone to restore their confidence and to provide a method of combating the economic crises they were facing. Franklin D. Roosevelt became a leader to accomplish these tasks.*" In the context of Nepal Rastra Bank's evolutionary period after the mid-fifties, the Bank also required pioneering leadership to tackle the then existing challenges and accomplish the objectives set by its charter. It was a very difficult task to lead a newly established central Bank having numerous challenges. However, looking back at the operations and achievements of the Bank for the past five decades, there is sufficient reason to take pride of its corporate leadership.

The Board of Directors as the Apex Policy Making Body

Corporate leadership of Nepal Rastra Bank (NRB) refers to its Board of Directors (BOD), which is the supreme policy making body. The Board consists of the Governor, two Deputy Governors and four Directors. As the Bank's Chief Executive, the Governor is responsible for driving the Bank towards achieving desired goal as provided in the NRB Act, 2002 as well as attaining its mission and vision. In this paper, the term 'corporate leadership' mainly foucusses on the functions and responsibilities of the Governor who acts as the ex-officio Chairman of the Board.

The operations and activities of NRB are governed by the Nepal Rastra Bank Act, 2002, which was enacted by replacing the erstwhile Act of 1955. The Act has, to a great extent, addressed the issues in relation to corporate governance such as autonomy, accountability and transparency. There is clear demarcation of the functions, duties and powers of both the Board and the Governor.

The Bank's activities are carried out by the BOD, which is responsible formulating rules, regulations, ligislation and overall management of the Bank. The Govenor's office disseminates the information regarding the execution and implementations of decisions taken by the BOD and the top management. The Bank's regular affairs are executed by the Deputy Governors. The compulsion of convening the Board meeting at least once a month facilitates the leadership to monitor the activities and execution of strategic plans of the Bank on regular basis.

The BOD comprises of seven members. Apart from the Governor as its ex-officio Chairman, the BOD includes the Finance Secretary, two Deputy Governors and three persons renowned in the fields of Economics, Monetary, Banking, Finance and Commercial Laws. The Finance Secretary and two Deputy Governors are also ex-officio Board members. The present structure of the BOD is presented in *Annexure A*.

In the erstwhile Act, out of the four directors to be nominated by HMG, the Finance Secretary had been represented in the BOD traditionally from the very beginning, although its was not an ex-officio position. On the other hand, it was a unique situation where the status of the Deputy Governors as ex-officio members, having no voting rights, used to attend the Board meetings as observers.

The Board has been empowered specifically to run the Bank's operations efficiently and smoothly. Accordingly, the functions, duties and power vested to the Board can be listed as follows:

Board: Functions, Duties and Powers[3]

- Frame monetary and foreign exchange policies;
- Take necessary decisions with regard to the denominations of bank notes and coins and frame appropriate policies for issuance;
- Frame policies on inspection and supervision of banks and financial institutions; Approve rules and bye-laws and frame policies for operation and management of the Bank;
- Frame personnel policies;
- Approve annual program, budget of the Bank and annual auditing of accounts and submit report to HMG;
- Approve the annual report on the activities of the Bank;
- Frame policy for issuance and revocation of license of banks and financial institutions;
- Approve the limit of the loan to be provided to HMG;
- Fix the amount, limit and terms and conditions of the loan and refinance to be provided to banks and financial institutions;
- Make decision regarding Bank's membership to international organizations, associations;
- Frame policy for the mobilization of Bank's financial resources and investment;
- Submit proposal to HMG on amending this Act;
- Take decision on all other matters excluding the matters which are within the authority of Governor under this Act, and
- Delegate the powers vested on the Board to the Governor or the sub-committee constituted by the Board.

Management Committee/Audit Committee

The Bank's Act has laid down the provision of two Committees under the Board: the Management Committee and the Audit Committee. The main responsibility of the Management Committee is to evaluate the country's monetary and financial conditions periodically and report to the Board at least once a month. Such a report may be in relation to the operation of monetary and other regulated policies, the soundness of the banking system, condition of money, capital and foreign exchange market, implementation of these policies and their impact. Thus the provision of the Management Committee has facilitated broad oversight over monetary and financial position of the country. The Governor is the ex-officio Chairman of this Committee. Other members include: two Deputy Governors, member-secretary and other invited senior officers. This Committee can be treated as a replacement of the Monetary Management Committee as provisioned in the Bank's previous Act.

Similarly, the Audit Committee is aimed at maintaining financial and operational discipline in the Bank. It has a non-executive director as its convener while the Chief of Internal Audit Department and one senior officer designated by the Board as member. The functions, duties and powers of the Audit Committee are as follows:

Audit Committee: Functions, Duties and Powers[4]

- Submit report and recommendation to the Board (through the Governor) on accounts, budget and auditing procedures and control system;
- Ascertain whether or not the auditing and preparation of periodic balance sheet and other documents of the Bank have been carried out properly;
- Supervise the implementation of the appropriate risk management adopted by the Bank;
- Audit managerial and performance of works of the Bank in order to be assured that the prevailing laws applicable to the Bank have been fully complied with;
- Frame bye-law for auditing of the Bank in accordance with the prevailing laws and international auditing standard and to submit it to the Board for approval.

Strengthening of Corporate Leadership Through Legal Framework

The Act has made transparent provision for appointing the Governor, Deputy Governor and Directors. These are the people who drive the Bank to achieve the stipulated objectives as well as meeting its vision and mission. The Governor is appointed by the Council of Ministers from among the candidates recommended by a Recommendation Committee, to be chaired by the Finance Minister. Other members include: one person from among the former Governors and one from among the persons renowned in the fields of Economics, Monetary, Banking, Finance and Commercial Laws. In connection with the Governor's appointment, the Committee recommends three candidates renowned in the field of Economics, Monetary, Banking, Finance, Commerce, Management, Commercial Law and from among the Deputy Governors. It is noteworthy that the previous Act was not specific on the qualifications of the Board members including the Governor.

The Governor and the members of the Board are required to take oath of secrecy from the Chief Justice or a Justice designated by him prior to assuming the respective responsibility. This provision signifies the depth of responsibility to be assumed as their respective office bearers and represents a highly prestigious and supreme institution.

To assist the Governor in his day-to-day work, two Deputy Governors are appointed on the former's recommendation. The Deputy Governors are selected from among the Bank's special class officers on the basis of performance and capability.

All the Board members are appointed by HMG for a term of five years. HMG may reappoint the Governor for one more term. Other members of the BOD can be reappointed for any term.

The provision of making public notification of the Governor's appointment normally one month prior to the vacancy of the post is also a remarkable aspect of the Act.

The Bank's Act has stipulated qualifications for the office bearers at the leadership level, i.e., the Governor, Deputy Governor and Directors. Apart from being a Nepalese citizen, the incumbent should possess a high moral character. The working experience and academic qualification needed are also clearly stated in the Act.

Similarly, the grounds under which the candidatures for the above positions are disqualified are also specified as follows:

- Membership or affiliation to a political party,
- Blacklisted by a commercial bank or financial institution,
- Engagement in bank or financial institution
- Holding 5 percent or more shares or voting right in a commercial bank or financial institution
- Being rendered bankrupt due to inability to pay debts to creditors, and
- Convicted by a court in an offence involving moral turpitude

Obviously, the above provisions are made with a view to make the persons at the leadership level free from political influence, efficient, professional and ethical so as to enable them to discharge their duties and official responsibility in a smooth manner.

Apart from determining the aforementioned qualifications, the Act has clearly laid down certain norms to prohibit vested personal interest, including code of conduct on the part of Board members as follows:

- Matters of personal interest cannot be discussed in the Board meeting. The Governor, Deputy Governors or Directors are required to disclose any such matter prior to the meeting in case matters having personal interest are to be discussed and abstain from taking part in the same.

- Till one year after retiring from his office, the Governor or Deputy Governor shall not be allowed to work in a commercial bank and financial institution.
- Within one month from the date of appointment and retirement, the Governor and Deputy Governor shall make it public the details of property held in the name of his family members.
- The Governor and Deputy Governors shall fully devote their professional service to the Bank.
- The Governor, Deputy Governor or Director, including employees, advisor, auditor, agent or Bank's representative shall not breach confidentiality of the Bank.

In short, the Nepal Rastra Bank Act, 2002 aims at operating the Bank's activities in a highly transparent and accountable manner adhering simultaneously to strict financial discipline and corporate governance. The provision of making public of the monetary policy before the next fiscal year, publishing financial statements and reporting to HMG have given more impetus to transparency of the Bank's activities.

An important feature of the Act is the clear provisions for removal of persons working at the leadership level of the Bank. This eliminated the discretionary power of the government. Some of these grounds include: lack of capability to carry out the Bank's functions, causing loss and damage to the banking and financial system, dishonesty or mala-fide intension and so on. For removal from these positions, an Inquiry Committee is constituted and the concerned office bearer is charge-sheeted. HMG can take action on the concerned authority only on the basis of the Committee. The Committee constitutes of the person designated by HMG from amongst the retired Justices of the Supreme Court as the Chairperson, while two persons designated by HMG from amongst renowned persons as members. In the case of the Deputy Governor and other directors, the action relating to removal is undertaken on the recommendation of the BOD.

The present legal provision on removal of the Board members including the Governor has enhanced the stability and autonomy of its leadership. In the absence of such provision sudden removal of the Governor took place in different periods. It created instability in the Bank's leadership. There are instances when some Governors were either removed or made (forced) to resign from their post prior to completing their tenure. Furthermore, in the past, the previous Act had even the provision of discretionary "dismissal" of the Governor. The terminology was later on amended as "removal". It is noteworthy that Mr. Kalyana Bikram Adhikary, the seventh Governor, was "dismissed" just six months after his reappointment. Political changes also led to the instability in the Bank's leadership. The tenth Governor, Mr. Satyendra Pyara Shrestha's tenure was highly turbulent because of the frequent changes in governments between 1995 and 2000. It has been acknowledged that the stability in the tenure of the individuals working at the leadership is directly linked with the effective execution of stability in plans and policies of the Bank. The new Act has rightly addressed this crucial issue. However, even before the new Act was enacted, there has been an instance where the Court has rejected the government's decision about the dismissal of the Governor. This can be evidenced with the reinstatment of Dr. Tilak Rawal to his position as Governor on the verdict of the Court. Dr. Rawal was suddenly removed from the post in less than one year of his appointment. However, Dr. Rawal challenged the decision in the Court, which instructed the government to reinstate him in his position. Thus, the Supreme Court of the Kingdom of Nepal made a pioneering decision aimed at ensuring central banking independence through maintaining stability in the Bank's leadership.

The Governor as the Bank's Chief Executive

The Governor has a dual responsibility as the Chairman of the Board and the Bank's Chief Executive who is responsible for executing the policies formulated by the BOD as well as running the overall administration of the Bank. As the Chairman of the Board, the Governor has a crucial role to play in directing the activities of the Bank. Similarly, in the capacity of the Bank's Chief Executive, he executes the policies formulated by the Board. He has been vested with the powers to be exercised in accordance with international practice which may be delegated to the Deputy Governor or other employees of the Bank, in order to conduct the business of the Bank in a smooth manner.

The Governor's functions, duties and powers are clearly spelt out in the Bank's Act as follows:

Governor: Functions, Duties and Powers[5]

- Implement Board decisions;
- Operate and manage the Bank;
- Systematize the functions to be carried out by the Bank;
- Represent or cause to represent on behalf of the Bank in international organizations and associations;
- Implement and cause to implement the policies relating to monetary and foreign exchange matters;
- Formulate necessary policy on rates of interest for deposits and loan with banks and financial institutions;
- Formulate necessary policies on the rates of interest to be paid by banks and financial institutions on deposit and loan or the rate of interest to be charged by them on deposits and loan;
- Formulate necessary policies relating to liquidity to be maintained by banks and financial institutions;
- Make necessary arrangement with regard to the basis, amount, methods, conditions and duration of compulsory cash reserve to be maintained by banks and financial institutions and its use;
- Fix the terms and conditions relating to adequacy of the capital fund of banks and financial institutions;
- Take decisions with regard to the procedures and terms and conditions to be followed while purchasing and selling gold and other precious metals;
- Fix the charge on the services to be provided by the Bank;
- Take decisions for opening and closing branch offices and other offices of the bank as may be necessary;
- Establish and close agency of the bank;
- Make necessary arrangement for development and operation of information system of the Bank;
- Make necessary arrangement for supervision of banks and financial institutions;
- Take decision with regard to revocation of the license provided to banks and financial institutions;
- Take decisions on any other matters subject to the powers delegated by the BOD.

Apart from the responsibility as the Bank's Chief Executive, the Governor represents the Bank in prominent institutions at national level. The Governor is also an ex-officio member National Development Council which is chaired by His Majesty the King.

The Governor is also the ex-officio Governor to the IMF on behalf of Nepal. Hence he represents the Bank in the Annual Meetings of the IMF and World Bank. Similarly, NRB is the founder member of regional and bilateral institutions of central banks such as the South East Asian Central Bank Governors (SEACEN), South East Asia, Australia and New Zealand (SEANZA) and Asian Clearing Union (ACU). As such these institutions are also represented by the Governor.

Leadership of NRB in Fifty Years

A Review at the Achievements

Nepal Rastra Bank has so far been led by thirteen Governors during the five decades of its inception. Looking back to the country's economic and monetary position of those days, one can easily imagine the hardships and challenges faced by the persons at the leadership level. Before elaborating the highlights of the achievement during the past five decades, it is worthwhile to go back to the economic and financial scenario of the country prior to the Bank's establishment since it helps the readers to have an idea about the prevailing challenges that have had to be faced by the Bank's leadership.

The Nepalese economy in the mid-fifties was characterized by virtual absence of infrastructure. Being predominantly an agricultural country, the exports consisted of primary products while the import items constituted mainly of daily necessities like cloth, kerosene, sugar, petrol, salt, medicines, machinery and consumer goods. Trade was mostly concentrated with India. There was absence of entrepreneurs and technical know-how. Since the transport and communication were underdeveloped, the national economy was not integrated. There were only a couple of large and medium-scale industries producing jute, match, sugar, cotton, rice, flour, oil, and so on.

At that time the Nepalese economy was uniquely characterized by a dual currency system. Both Nepalese and Indian currencies were in circulation without any restriction. Indian currency had free convertibility and a great influence over the Nepalese economy. There was no authority to issue license or authorization for conducting foreign exchange transaction. In other words, there was no control over foreign exchange business. Except in some hilly regions and Kathmandu valley, Indian currency dominated the Nepalese currency. Surprisingly, raising of government revenues and salary payment of government employees used to take place in Indian currency. Even saving of public deposits and disbursement of credit from Nepal Bank Ltd (NBL) was made in Indian currency. This can be evidenced by the fact that out of the total loan disbursement and saving kept in NBL as at April 1958, the portion of Indian currency consisted of 72.9 percent and 81.8 percent respectively[6]. This reflected the influence and demand of the Indian currency in monetary transaction in those days.

On the other hand, the exchange rate of Nepalese currency vis-à-vis the Indian currency fluctuated frequently. This encouraged speculating activities. The local money changers in Kathmandu used to fix discretionary exchange rate although Nepal Bank was official bank for determining the exchange rates. The country's foreign exchange reserve was kept in Reserve Bank of India. Nepal's long open border with India, over concentration of trading activities with that country was the major factors that led to the dominance of Indian currency in the economy.

The Nepalese currency was also dominated by coins. Although the Sadar Mulukikhana used to issue currency notes, they were not in sufficient quantity. The use of coins comprised of more than fifty percent of the total transaction in day-to-day transaction. Transactions were made in sack-loads or even truck-loads of coins. This obviously caused much inconvenience and difficulty to banks, government offices, business firms and general public while transacting in cash.

It was very difficult to estimate the total money supply since there was no record of the volume of Indian currency circulating in the country. Thus it was felt that the dual currency system and the uncertainty of exchange rate between the Nepalese currency and the Indian currency threatened the economic stability of the country.

The only commercial bank (NBL) had 13 branches which were concentrated mostly in urban areas despite operating for nearly two decades. Hence due to lack of banking facilities, people had to depend on local landlords, merchants, traders and goldsmiths who charged exorbitant rate of interest. There was no organized money market in the country.

All banking transactions of the government were carried out by NBL which also determined the exchange rate after due study and evaluation of daily trends in the market.[7] The credit creation was negligible since people lacked banking habit. As at April 12, 1957 the total deposits and cash at hand of the bank were Rs 35 million and Rs 13 million respectively.[8]

Broadly, the background of the Nepalese economy in those days as observed by the founder Governor of Nepal Rastra Bank, Mr. Himalaya Shumsher J.B. Rana is very relevant. He recollects the economic scenario in the background before the central bank came into existence. His recollections[9] are quoted below:

"The background to the establishment of the Bank should be recorded first. The Nepalese economy was rather different then. No jet aeroplanes flew into Kathmandu. Bullock carts, horses and shank's mare were the means of travel in most parts of the country. It was a must or in most cases more convenient to go via India to reach the southern parts of the country in the East or West from Kathmandu. Barter at periodic fairs was a significant feature of internal trade. Almost all imports were from India. Exports of goods were almost exclusively to India and comprised timber and agricultural products."

Only one commercial/industrial bank served Kathmandu and some districts. Other than the Indian rupees, foreign exchange or US dollar was scarce as diamond. Nepalese coins were issued by the Mint and currency notes by Mulukikhana (Govt. Treasury). There was no requirement of gold or foreign exchange reserve for issuance of currency notes. The budget of His Majesty's Government was of the magnitude of Nepalese rupees 120 million."

From the prevailing scenario of the country as mentioned above, it was evident that a lot of reforms were to be made in economic and banking sector. There was an urgent need to enforce the Nepalese currency as the legal tender of the country and stabilize the exchange rate of the Nepalese currency vis-a-vis the Indian currency. In the wake of these challenges, Nepal Rastra Bank was established as the country's central bank on April 26, 1956. Interestingly, a study team of Reserve Bank of India headed by its Deputy Governor Ram Nath had reported the Nepalese government that there was no need to establish a central bank in Nepal for the time being on the ground that the economic activities of the country are insufficient and that there is lack of infrastructure for performing traditional central banking functions. However, Sardar Gunja Man

Singh, who looked after the Finance ministry had presented the recommendation to set up the central bank in Nepal to His Majesty the King.[10] Time has proved such decision to be very relevant, timely and visionary.

The Nepal Rastra Bank Act, 1955 clearly and adequately addressed the prevailing economic scenario of the country. The broad objectives of the Bank had been clearly spelt out in the Preamble of the Act as:

"Whereas it is expedient to ensure proper management of the issuance of Nepalese currency notes, to make proper arrangement for the circulation of Nepalese currency throughout the Kingdom and to stabilize the exchange rates of Nepalese currency in order to maintain comfort and economic interests of the general public."

"To mobilize capital for development and encourage trade and industry in the Kingdom, and whereas a National Bank has become very essential also to develop the banking system of Nepal."

The following expression made by King Mahendra on the occasion of the inauguration of the Bank on 26 April 1956 is very much relevant:

"It is our belief that the establishment of this Bank will, by the proper management of our currency, promote the growth of banking industry and commerce, and rejuvenate the economic life of the country."

It is obvious that the prevailing socio-economic conditions characterized by absence of monetary authority, limited banking services, demonetized economy and non-existence of industrial concerns were the factors that led to the establishment of the Bank. It also coincided with the country's First Five Year Plan (1956-61). Therefore, the Bank shouldered the additional responsibility of building financial infrastructure as envisaged by the Plan, apart from initiating the central banking functions.

As is evident, there were a number of areas in which the central bank's leadership had to address in order to achieve the stipulated objectives. It was not an easy task to translate the objectives reflected in the Act into reality. There is no magic stick that can rectify the anomalies prevalent in the economy at once. The Bank needed capable leadership to cope with the numerous challenges. However, the Bank is fortunate enough to have the leadership of dedicated and capable personalities right from its establishment. The untiring efforts and dedication of the Governors who provided dynamic leadership have contributed towards shaping today's Nepal Rastra Bank. The Bank has been able to acquire the prestigious stature of today with the dynamic leadership skills demonstrated from the very beginning. Additionally, the continuous effort towards building efficient and highly professional manpower on the part of the top management has contributed to achieving the objectives set by the Bank's Act.

NRB during the last five decades had passed through various changes in the economy in the financial system of the country. Accordingly, the Bank's leadership had tackled problems and faced challenges of varied nature. The Nepalese economy and the banking system have immensely benefited from the rich experience, expertise and professionalism of successive Governors while the country has witnessed continuous refinements of policies relating to monetary, banking and development finance.

The first decade (1956-66) was an evolutionary period when the Bank was set up. The newly set up central bank, was able to achieve the primary objective of eliminating dual currency system and stabilizing the exchange rate between the Nepalese currency and Indian currency.

During the second decade (1966-76), the Bank introduced various monetary instruments. The Bank also focused its attention in formulating and executing appropriate monetary policies, apart from initiation of banking development. This broadened its responsibilities.

The third decade (1976-86) was marked by further expansion of banking system and the central bank's active role in development financing.

During the fourth decade (1986-96) the Bank went through the process of financial liberalization, restructuring and economic stabilization.

Similarly, the beginning of the fifth decade (1996) was the period of financial sector reform at massive scale that is ongoing.

In the following paragraphs, an effort has been made to highlight few of the important policies regarding monetary and financial sector issues, apart from organizational reforms executed during the tenure of respective Governors. Additionally, the personalities who assumed the responsibility as Deputy Governors and Directors from the Bank's inception are presented in Annexure B and Annexure C respectively.

Mr. Himalaya Shumsher J.B. Rana, the Founder Governor

Tenure: April 26, 1956 – February 7, 1961)

Mr. Himalaya Shumsher J.B. Rana is the founder Governor of the Bank. Prior to establishment of the Bank, he was entrusted with the task of drafting the Bank's charter as Officer-on-special duty. For this Mr. Rana had worked in coordination with Sardar Hansa Man Singh, the Principal Royal Advisor. Upon enactment of the NRB Act, 1955, the Nepal Rastra Bank was established as the central Bank of the Kingdom of Nepal. It was indeed an important event in the history of Nepalese financial system.

Upon his assumption of office as Governor, Mr. Rana immediately started his campaign to address the problems faced by the Nepalese economy. The foremost challenge of that time, as explained earlier, was to increase the circulation of Nepalese currency all over the Kingdom. In this context, the *Act to Increase Nepalese Currency Circulation, 1957* declaring the Nepalese currency as the only legal tender of the country, was promulgated on July 12, 1957. The Act was initially enacted in Kathmandu valley, eastern regions (including Dhankutta) and western regions (including Baglung, Salyan and Dailekh districts) from May 9, 1960. Accordingly, people in these areas were required to transact in Nepalese currency only.

In order to supplement the Act, NRB, for the first time, issued its own currency notes from February 19, 1959 (Democracy Day). In this connection the currency notes of Rs 1, Rs 5, Rs 10 and Rs 100 denominations, were issued. The Bank also took the unissued notes printed by the government (Sadar Mulukikhana) worth Rs. 15.2 million, along with the assets and liabilities previously maintained as security reserves. The government, on the request of NRB, gradually decreased the production of coins. The gradual replacement of metallic money by paper money greatly facilitated monetary transaction

Another anomaly, as explained earlier, that existed in the Nepalese economy was the prevalence of wide circulation of Indian currency and the uncertainty of its exchange rate with the Nepalese currency. The absence of any regulatory authority for official intervention in exchange rate fixed by local money changers led to speculative activities. Hence to address this situation, two distinct steps were taken. Firstly, on the basis of an in-depth study, the exchange rate was fixed at Rs 160 for Indian Rs 100 on 13 April 1960. Secondly, the *Foreign Exchange Control Act, 1960* was promulgated in May 23, 1960. The Act established NRB as the sole custodian of foreign exchange in the Kingdom of Nepal. This Act was initially operationalized in Kathmandu valley on October 17, 1960 and gradually expanded to other parts of the Kingdom. Accordingly, those who desired to transact (buy/sell) in foreign currency were required to obtain license from the Nepal Rastra Bank. Transaction in the official rate fixed by the Bank became mandatory. Supportive regulatory arrangements were also made. Thus transacting in foreign exchange without license and determining discretionary exchange rate, became illegal. Collecting government revenues in Indian currency was also prohibited. The deposits previously kept in NRB and NBL in Indian currency were converted into Nepalese currency.

Thus the issuance of currency notes and the enactments of the *Act to Increase Currency Circulation* significantly helped towards increasing circulation of Nepalese currency. It brought about significant change in the transaction pattern of the general public and the commercial Bank. At the same time, the *Foreign Exchange Control Act* helped in regularizing foreign exchange transaction. The restriction in rampant foreign exchange transaction also encouraged the people to transact in Nepalese currency. The provision for unlimited exchange of both currencies and the fixation of official exchange rate stabilized the exchange rate between the two currencies thereby eliminating speculative activities.

The above steps alone were not sufficient to increase the circulation of Nepalese currency in the absence of sufficient outlets. Hence the Bank embarked upon opening offices in different parts of the Kingdom. Exchange/mobile counters were operated at places to facilitate the exchange of currency. These exchange counters facilitated unlimited exchange of both Indian and Nepalese currency by providing dawn to dusk service. Arrangement for chests in both the Nepalese and Indian currency was also made in different places for this purpose.

Thus the stabilization of the exchange rate between the Nepalese and Indian currency and the enactment of the two Acts during the tenure of Governor Rana proved to be a milestone in enhancing the public confidence towards the national currency and eliminating the dual currency period. These steps significantly increased the monetization of the economy in the preceding years.

With a view to smoothen and facilitate foreign exchange transactions, accounts were opened with central and commercial banks abroad. Accordingly, accounts were maintained with the central banks of India and England as well as the commercial banks of USA and Japan. Previously, foreign funds were to be channelised through Reserve Bank of India only. From November 1, 1960 onwards, i.e. after the Trade and Transit Treat with India, the foreign exchange earnings of Nepal were kept with NRB.

Apart from reform in monetization, remarkable endeavor was made for the management of financial resources for the development of agricultural sector and cooperative institutions. A study was produced in this respect and a report was presented to HMG. Additionally, the necessity of agriculture credit was felt in the context of a least developed country like Nepal. In the absence of any institutions disbursing such type of loan, the Bank created the *Agriculture Credit Fund* by earmarking certain portion of its profit annually. Meanwhile, the Nepal Industrial Development Corporation was set up on May 27, 1959 by HMG with the objective of disbursing loan as well as providing technical support to the private sector.

As per legal provision of that time, the NRB could disburse direct credit to industries. Accordingly, the Bank had disbursed credit to a jute mill. However, an idea as to channelise financial resources by the central bank through an industrial bank like NIDC, instead of direct financing, was conceived. It was indeed the concept of refinance, which was later on materialized. Similarly, the conception of share participation in the industrial bank by the NRB for the development of industries was later on put into practice.

Significant amendments were made in the Bank's Act. The first amendment fixed the tenure of the directors of the BOD, while the second amendment facilited issuance of currency note as per circulation and demand. This amendment was made in view of the demand of Nepalese currency resulting from its increased circulation. Provision was also made as to maintaining securities for issued notes.

Since Mr. Rana's Governorship marked the beginning of the central Bank, organizational arrangements for the bank's smooth operation were also initiated. In the context of the existing situation of the economy, the Bank had adopted the policy of expanding its offices, rather than encouraging the expansion of commercial bank branches.

The NRB started its operations initially with 23 staff including the Governor and a Chief Accountant. With the expansion of offices, the number of staff also increased gradually. The Bank had 9 offices with staff strength of 73 as of mid-July 1956. The offices constituted of branch, sub-branch, depot and exchange counters. Apart from the central and Banking offices, 1 branch (Biratnagar), 1 sub-branch (Bhadrapur) and 13 depot offices (Rajbiraj, Sirha, Jaleshwar, Malangawa, Kalaiya, Gaur, Birgunj, Parasi, Bhairahawa, Taulihawa, Shivraj, Nepalgunj and Kailali) were set up by July 15, 1957. With the gradual expansion of Banking services in both Terai and hilly regions, the number of offices as at mid-July 1960 reached 18, while the number of staff grew to the tune of 368.

As it was the Bank's evolutionary period, obviously there was shortage of banking manpower. Some of the staffs were picked up from NBL. Staff was imparted training on relevant fields like modern accounting system, foreign investment, central banking, economic planning, statistics and administration both at home and abroad. Some of the trained personnel were also deputed to government offices. With the increase in volume of work, sections like Administration, Accounts, Foreign Exchange and Research were upgraded into departmental levels, along with introduction of a new identity. Other administrative reforms during the tenure of the founder Governor include: arrangement as to set up separate sections to look after Agriculture Credit and Public Debt; implementation of new pay scale and revision thereon; enactment of NRB Employees Regulations and Regulations on compensation of old, soiled notes.

In short, founder Governor Rana had a highly successful tenure in achieving the goals set by the Act to a very remarkable extent. The initiation of various policies during the evolutionary period, also paved the way for smoothening the Bank's responsibilities for his successors in the days ahead. His contribution in both monetizing the economy and developing the organizational structure of the Bank during the very crucial and difficult times, is really commendable.

Mr. Rana, after retirement from the Governorship in 1961, had been affiliated with the United Nations service in the capacity of Deputy Resident Representative and Resident Representatives in various countries. He is still actively contributing his expertise in the financial sector.

Mr. Laxmi Nath Gautam

Tenure: February 8, 1961 – June 17, 1965

Prior to his appointment as the second Governor, Mr. Laxmi Nath Gautam, had served as a member of the Bank's BOD in 1958-59.

As the Bank was passing through the evolutionary period, efforts on monetization of economy were continued. The *'Nepalese Currency Circulation Act'* was enacted in Ilam, Baitadi, and Doti districts in the second phase. Expansion of offices and exchange counters also took place to boost up the circulation of Nepalese currency. As a result, the volume of currency and commercial transactions grew substantially. The country's foreign exchange reserve reached Rs. 178 million within a period of nine years, as compared to Rs. 9.4 million in April 1956.[11] In this context, the *Foreign Exchange Control Act* was replaced by *Foreign Exchange (Regulation) Act, 1962* with effect from August 1, 1962. The relevant regulations under the Act were also enforced in October 1962.

Some amendments in the Bank's Act were also made. The 3rd amendment made provision for publication of the Bank's accounts and activities to be presented to the government, while the 4th amendment dealt with the qualifications of the Governor and Directors of the BOD.

The establishment of the Cooperative Bank, which started its operations from September 1963, was a significant step towards management of rural credit. In the process of its establishment, the financial resources amounting to Rs 8,00,000 accumulated at the Agriculture Credit Fund maintained by NRB was handed over to the government. This showed the Bank's initiative towards institutional development in the field of agriculture credit.

Efforts were also initiated to set up another commercial Bank in Nepal. By July 1961 the number of NBL's branches was only 23. By geographical location, the number of branches was 15 in Terai, one in inner Terai, 4 in Kathmandu and 3 in hilly regions. As such, there was only one Bank branch to serve 4,00,000 people. It was indeed a slow growth of branch network. Hence, the necessity of another commercial Bank was strongly felt. Therefore, the Commercial Bank Act, 1964 was promulgated with the objective of facilitating opening of commercial Banks. However, no attempts were made by the private sector in this direction

As the economic advisor of the government, the Bank presented a report on price situation of the country at the request of the Ministry. The Bank also coordinated in setting up a national insurance company in Nepal.

Nepal became the member of IMF and World Bank in September 6, 1961. With this Nepal had the opportunity for exposure in the international arena.

By mid-July 1965 the number of offices reached 30 while the number of staff stood at 637. Upon completion of his tenure, Gautam was reappointed as Governor in February 9, 1963. He resigned on June 17, 1965.

Mr. Pradyuma Lal Rajbhandari

Tenure: June 18, 1965 – August 13, 1966

Mr. Pradyumna Lal Rajbhandari was appointed as the third Governor of the Bank after the second Governor resigned. Prior to that, Mr. Rajbhandari had served as the Bank's Board member and as Secretary to His Majesty's Government

Like his predecessor, Mr. Rajbhandari continued the policy of increasing the circulation of Nepalese currency, eliminating the dual currency system, regulating the exchange rate and managing the foreign exchange reserve. The *Act to increase Circulation of Nepalese Currency* was implemented in rest of the kingdom with effect from December 16, 1965. Emphasis was given to monetary stability with economic growth. As a result of these steps, the money supply as at July 1966 reached Rs 521 million as compared to Rs. 91 million in July 1957.[12]

The Nepalese currency was revaluated with Indian currency in June 1966 as a result of the devaluation of the later by the Indian government. Accordingly, the exchange rate of Indian currency with Nepalese currency was fixed at Rs. 101.25 from Rs 160. This caused substantial decrease in the reserve of the Indian currency affecting the economy. Hence a committee was constituted under the chairmanship of the Governor to study its impact and measures to be taken.

A substantial achievement during this period was the establishment of the Rastriya Banijya Bank (RBB) in January 23, 1966. The banking service rendered by the then only commercial Bank (NBL) with only 36 branches, was felt not sufficient. The private sector was not willing to set up a Bank despite the promulgation of the Commercial Bank Act. Hence, the RBB was established as a fully public sector bank with the advice of the NRB. The new bank was also assigned to act as an agent of NRB. A policy was also formulated to gradually handover the NRB's depot, sub-offices and sub-branches to this Bank and retain only a few branches at important centres.[13] The expansion of commercial bank branches took place in the preceding years with the central bank's initiatives.

With a view to contribute the development of industrial sector, NRB created an *Industrial Credit Fund* with an initial fund of Rs 2 million in 1965. Similarly, the *Agricultural Credit Fund* was reinstated with a fund of Rs 2 million the same year. Later on these two funds were merged to create a "*Development Fund*" along with a sum of Rs 6 million earmarked out of the Bank's net profit. Thus the Fund having financial resources of Rs 10 million was aimed at providing support to financial institutions. Again a sum of Rs. 2.5 million was earmarked for the *'Banking Development Fund'* which aimed at supporting banking services.[14] These visionary steps had far reaching effect in the development of industrial and agricultural sector.

The number of offices during Mr. Rajbhandari's tenure remained 30 (branch-5, sub-branch-5, Depot-12, Exchange Depot-5 and Exchange counters 3) with the staff strength increased to 738.

After his tenure as Governor that lasted for about 14 months, Mr. Rajbhadari resumed his services with the government in various capacities, including Chief Secretary, Chairman of Pay Commission and Public Service Commission and as Election Commissioner. He also served as Royal Nepalese Ambassador to Germany.

Dr. Bhekh Bahadur Thapa

Tenure: August 14, 1966 – July 26, 1967

Dr. Bhekh Bahadur Thapa, before appointed as Governor, was member-secretary at National Planning Commission. He was also attached to the Financial Affairs Ministry. He took over as the Bank's fourth Governor to succeed Mr. Pradyumna Lal Rajbhadari.

The abolition of dual currency system can be regarded as a major achievement of the Bank during Dr. Thapa's tenure which marked the first decade of the Bank's establishment. The Foreign Exchange (Regulation) Act was enacted in additional six zones (Bagmati, Narayani, Janakpur, Sagarmatha, Koshi and Mechi) from September 17, 1966 and in rest of the eight zones in October 1966. With this the dual currency system prevailed for a long time was fully scrapped all over the country. The Nepalese currency became the only legal tender of Nepal in true sense. Accordingly, the license issued to private sector money changers for foreign exchange transaction was revoked gradually. Provision as to making disclosure upon purchase of Indian currency exceeding 500 Rupees was made.

During Dr. Thapa's tenure, directives on monetary, credit and other general policies to commercial banks were issued. Credit control regulations for commercial banks were also introduced in September 19, 1966. The provision of maintaining cash reserve ratio (CRR) at 8 percent of the deposit liabilities was made for the first time in September, 1966. The interest rate policy was adopted as one of the important instruments of the monetary policy. Commercial banks were directed to increase interest rate in saving and fixed deposits, while margin rate for import trade was determined. Similarly, a detailed policy on refinance was also formulated. Initially the ceiling for such refinance was fixed as Rs 10 million.

The Bank also diverted its attention towards expanding the banking services throughout the Kingdom. In this context, the Banking Operation Department was set up in November 20, 1966 with a view to look after this matter. The number of staff as at mid-July 1967 reached 915.

Upon completion of his tenure as Governor, Dr. Thapa worked in key positions in the government including Minister of Finance. Apart from his affiliation in international organizations like UNDP and IDRC, Dr. Thapa had assumed diplomatic responsibilities in the capacity of Royal Nepalese Ambassador to the USA and India for a long time.

Dr. Puskar Nath Pant, who was one of the Board members of the Bank, served NRB as its Acting Governor from July 27, 1967 until April 23, 1968. During this period, the Agricultural Development Bank was established by dissolving the Cooperative Bank. This step was taken with a view to address the necessity of a more effective and specialized institution to finance the agriculture sector as well as the cooperative societies. The central bank also invested share capital in the Agricultural Development Bank.

Dr. Yadav Prasad Pant

Tenure: April 24, 1968 – April 28, 1973

Prior to his assuming the office as Governor, Dr. Yadav Prasad Pant was affiliated with the Bank as a

Board member. Apart from this, he held key positions in civil service and Planning Commission.

Dr. Pant's tenure was marked by the formulation of policies relating to banking system. It was the second decade of the Bank's inception when it initiated efforts towards expanding banking services all over the country, including rural and remote areas. In this connection, the *'Banking Development Fund'* was mobilized to encourage the commercial Banks to open branches in rural areas. Provision, apart from interest free loans, was made to compensate the loss incurred in branches opened in rural areas. The Fund aimed at setting up at least a branch in each district. Remarkably, there were only 9 branches of NBL operating mostly in urban areas before the evolution of NRB. Even after the establishment of second commercial Bank (RBB) the branch expansion could not take place for a long time. It can be evidenced by the fact that there were only 61 branches, out of which 42 branches belong to NBL, while 19 branches belonged to RBB[15]. Appropriate changes were made in the provision of the Fund in later years. From July 1970, the Fund also covered the branches of Agricultural Development Bank which were operating in areas that were not serviced by the commercial banks. The provision made by the Fund encouraged the commercial banks to open branches in rural areas. As a result, there was rapid expansion of banking services in the country in the forthcoming years.

With the expansion of the RBB, the central bank transferred some of its offices to the latter in accordance with a policy in this regard. Accordingly, some staff of the Bank were also handed over along with the offices to the RBB.

The setting up of the *'Banking Promotion Board'* on May 20, 1968 was yet another step geared towards the development of the banking system. The Board aimed at developing banking habit among the general public as well as expanding Banking activities all over the Kingdom. For this purpose, provision as to representation of various sectors (banking, industry, commerce) in the Board was made.

The establishment of *'Bankers Training Centre'* (BTC) as a specialized institution greatly contributed towards fulfilling the shortage of skilled manpower in the field of banking and finance. The BTC formed under the Chairmanship of the Deputy Governor, has trained thousands of bankers through tailor-made programs. Besides, the *'Bankers Club'* was set up with a view to enhance mutual understanding and cooperation among bankers. The Club also aims at mental and physical well being of its members.

Dr. Pant's tenure also marked the launching of Agriculture Credit Survey (1969/70) in 32 districts covering 52 village Panchayats, with a view to ascertain the actual position of agriculture. The survey result showed, among others, that only 18 percent of the rural population had access to institutional credit, while the rest of the population depended upon informal source of credit. Hence the flow of rural credit was found to be inadequate. The concept of micro-finance was also brought forward in the recommendations of the Survey. It also prompted the Bank to formulate appropriate credit policies in the days ahead.

Interest rate policy was also revised. In this context, NRB constituted a high level committee under the chairmanship of a Deputy Governor in March 1970, with a view to study and review the prevailing interest rate structure. It comprised of representatives from banks and financial institutions, line ministries of HMG, commercial and industrial organizations. The Committee presented its report on July 1970. Based on the recommendation of the report, appropriate changes in interest rate structure, margin and refinance rate were made.

The issuance of currency notes of high denominations during Dr. Pant's tenure can be regarded as a step taken for the convenience of the general public. Currency notes of Rs. 500 and Rs. 1000 denominations were issued for the first time.

Legal provision was also made for the appointment of two Deputy Governors to facilitate the day to day work of the Governor. Till then, the Chief Accountant played the de facto role of the Bank's Deputy Governor. Accordingly, Mr. Dhir Bikram Shaha, who was taking the responsibility as the Chief Accountant and Mr. Kumar Das Shrestha were appointed as Deputy Governors of the Bank. The number of the Bank's staff reached 1695 in July 1973.

After completing Governor's tenure, Dr. Pant assumed key positions in HMG such as the Minister of Finance. Dr. Pant also took diplomatic responsibility as the Royal Nepalese Ambassador to Japan. He was also the Chairman of Economic Commission in 1979. He is still actively contributing the country in the field of banking and finance.

Mr. Kul Shekhar Sharma

Tenure: April 29, 1973 – December 12, 1978

Before joining the Bank as its sixth Governor, Mr. Kul Shekar Sharma was Royal Nepalese Ambassador to the USA. Prior to that, he had assumed key positions including that of the Chief Secretary in the Government.

The tenure of Mr. Kul Shekar Sharma was marked by a number of reforms in monetary and external sector that have had a long-term impact in the economy of Nepal.

As a step towards reforming legal framework, the prevailing two Acts for carrying out similar activities were unified. In order to avoid duplication of functions and put the NBL and RBB as well as the commercial Banks that would come in future into a single legal framework, the Commercial Bank Act, 1974 was enforced. Accordingly, the Commercial Bank Act, 1963 and the Rastriya Banijya Bank Act, 1965 were scrapped. The new Act widened the commercial banking functions by making provision for disbursing medium and long-term credit for agriculture and cottage industries as well as other productive sector. The Act also brought the commercial banks into the mainstream of the country's economic development. More amendments in the Act took place in subsequent years so as to make the Banking system more development oriented. Similarly, the amendment in NRB Act facilitated the Bank to issue license to new banks and financial institutions. Provision for controlling, regulating and giving directives to the commercial banks was also made.

Significant reforms were made in monetary front. Substantial change in interest rate was made with a view to address the anomalies emerged in financial sector due to imbalance in the flow of deposits and demand of credit. Margin rates for commercial banks and development banks were also implemented. Substantial changes in cash reserve ratio and liquidity to be maintained by the commercial banks were made. The objective of this policy was to increase saving mobilization, flow of credit to productive sector and maintain money supply at a desired level. Credit ceiling was imposed on NBL and RBB to prevent excessive credit flow to private sector. Refinancing policy on agricultural sector was also revised

The introduction of small sector lending as the directed credit, implemented in April 1974 can be regarded as a milestone in the history of micro-lending. It was a special type of lending targeted for the social and economic upliftment of the deprived sector living in the rural areas. Accordingly, the commercial banks were directed to invest at least 5 percent of their outstanding deposit liabilities in agriculture, small scale industry and service sector. Failure to comply with this directive resulted in the penalization of the respective bank. In 1977/78 it was renamed as Priority Sector Lending and the portion of minimum investment was raised to 7 percent.

Mr. Kul Shekar Sharma's governorship is also remarkable in terms of institutional development in the country. The promotion of development-oriented institutions like the Credit Guarantee Corporation (now Credit Guarantee & Deposit Insurance Corporation), Agriculture Projects Services Centre (APROSC), Security Exchange Centre (now Nepal Stock Exchange) and Industrial Service Centre (now National Productivity & Economic Development Centre) on the direct initiative and excessive share participation by the bank has contributed towards the development of various sectors. Among these institutions, the Credit Guarantee Corporation was set up to compensate the Banks on loss incurred on credit disbursed for priority sector. This scheme encouraged the commercial banks to operate in risk-free environment. The APROSC was meant for formulating project proposals and preparing feasibility reports on various schemes related to priority sector. Similarly, the Security Exchange Corporation and the Industrial Service Centre were set up with a view to develop securities market and industry respectively.

The bonus voucher system (also known as exporters' exchange entitlement scheme) prevailing since February 1962 created adverse impact in the economy. Hence it was scrapped and replaced by the dual exchange rate system by HMG effective April 1978.

The second Agriculture Credit Review Survey (1976/77) was also completed during that time. It was conducted to review some of the important aspects of previous Survey. According to the findings of the Survey, 24 percent of the rural family received institutional credit as against 18 percent in 1969/70. This showed that the flow of credit as required by the economy was not satisfactory. A number of other studies were also conducted. A few of them included: (a) quality of banking services, banking statistics and investment by commercial banks in small sector; (b) BOP and foreign exchange; and (c) Sajha institutions.

As a result of the branch expansion policy, the number of commercial bank branches reached 216 by July 1977 covering all the 75 districts of the country. Out of the total branches, 127 branches belong to NBL while 89 branches belonged to RBB. Thus the objective of providing banking access for each district as envisaged by the *'Banking Development Plan'* was achieved.

The Bank received expert services from both the IMF and UNDP in the field of economic research and banking procedure & system, apart from fee based consultancy services. At this time, the IMF started to provide the services of an advisor to the Bank with Senior Economist Mr. Howard P.G. Handy.

NRB organized important regional meetings in Nepal. In this connection, the Bank hosted the 7th SEA Voting Group Meeting and the13th SEACEN Governors' Conference. The Bank became the founder member of Asian Clearing Union (ACU), based in Tehran, Iran in 1975. It also hosted the 6th Meeting of ACU Board of Directors in Nepal.

In view of the importance of agriculture sector as envisaged by the above mentioned Survey results, the Agriculture Credit Department was created in the Bank. The department aimed at making institutional arrangements for financial resources in agricultural sector as well as supervising the financial institutions dealing with agriculture. At a later stage this department was merged with the Banking Development. Separate sections on BOP and industrial credit were also set up.

The Bank set up "Reputed Chair" in the Tribhuwan University to support the study of Economics. Accordingly, provision of financial resources was made for the study and development of Economics.

During this period currency note of Rs 50 denomination was issued for the first time. A Money Museum was also set up at the premises of Issue Department on November 1978. The No. of staff reached 2035 as at July 1978.

Mr. Kul Shekhar Sharma was reappointed as Governor for next term on February 9, 1976. However, he resigned from the post in December 1979. After his retirement, Mr. Sharma assumed important responsibilities as the Vice-Chairman of National Population Commission and Chairman of the Administration Reforms Monitoring Committee.

Upon Mr. Kul Shekhar Sharma's retirement, Deputy Governor Mr. Udhir Shumsher Thapa took charge as the Acting Governor for nearly six months.

Mr. Kalyana Bikram Adhikary

Tenure: June 13, 1979 – December 8, 1984

Mr. Kalyana Bikram Adhikary was the seventh Governor of the Bank. Prior to that Mr. Adhikary was Alternate Executive Director of the Asian Development Bank in Manila. He had also been attached to the civil service for a long time. Apart from this, Mr. Adhikary also assumed the responsibility of Principal Secretary to His Majesty the King at the Royal Palace. His tenure also coincided the silver jubilee celebrations of the Bank in April 1981. King Birendra graced the historic celebrations on the occasion.

One of the significant achievements during Adhikary's tenure was the introduction of joint venture banking system in Nepal. In this context, the Nepal Arab Bank Ltd (now Nabil Bank) was set up in June 1984, as the first joint venture bank of Nepal. The policy of allowing joint venture with reputed foreign banks was aimed at modernizing Nepalese banking system as well as bringing about dynamism and competitive environment to enhance the quality of services. Prior to the evolution of the joint venture Banking system, only two commercial Banks (NBL and RBB) were operating in Nepal.

The formulation of a national policy for availing the access of banking services of at least one commercial Bank for each 30,000 population by the Sixth Development Plan period was also an important policy decision during Adhikary's tenure. This provision was made in the government's annual budget of FY 1980/81. The position of banking services was for having one Bank branch for approximately 57,000 population as at July 1981. Accordingly, additional 293 branches were to be opened by July 1985.[16] Hence the execution of this policy was undertaken as a campaign.

Some reforms were made in foreign exchange regime. In this context, the dual exchange rate regime being followed by the Bank for the past few years, was replaced by a single rate exchange system in

September 1981. Similarly, the method of determining exchange rate of foreign currency was amended by adopting the currency basket system with effect from June 1983. With this, NRB started determining the exchange rate of foreign currencies including US dollar as per exchange rate changes in international money market. The US dollar was treated as medium currency for this purpose. Similarly, the forward exchange rate was adopted to eliminate exchange rate risk involved in export import business. An Export Development Fund was also set up in November 1983. The main objective of the Fund was to encourage exporters in the form cash subsidy as per the nine point programme of the government.

With a view to execute the Priority Sector lending more effectively, the Intensive Banking Programme (IBP) was launched in October 1981. The programme was aimed at upgrading the standard of living of the people living in economically backward areas and free them from the economic exploitation of the local landlords. The IBP was based on area development approach where the participating banks were directed to invest certain portion of their total loan portfolio. Later on the Program was extended to 75 districts by 357 branches belonging to NBL and RBB. A unique program on Educated Unemployed under the IBP was also implemented in January 1984.

Further, as a component of the priority sector lending, the Cottage and Small Scale Industries (CSI) Project was launched in 1982 with the financial and technical assistance of US$ 6.5 million from World Bank (IDA). Provision for refinance and guaranteeing of loan disbursed by the participating banks was made to implement the Project.

A Family Budget Survey was likewise conducted on nationwide basis to ascertain the position of cost of living, income, employment and consumption pattern of the people in February 1984.

New currency notes of Rs 20 and Rs 2 denominations were issued. The Mint Department previously operated by HMG, was transferred to Nepal Rastra Bank in December 1983. Thus the Bank also took the full responsibility of issuing metallic coins along with the currency notes.

The South East Asian Central Banks (SEACEN) Research & Training Centre, a regional institution of central Banks received legal status in 1982. Mr. Adhikary was one of the signatories of the agreement on the establishment of the Centre during the 17th Governors' Conference held in Bangkok.

The number of staff as at July 1984 was 2763.

Though Mr. Adhikary was reappointed on June 10, 1984 for the second term, he could not complete it. After retirement from the position of Governor, he was nominated member of the National Development Council by His Majesty the King. Afterwards, he was appointed the Royal Nepalese Ambassador to France. Reknown as soft spoken and kind hearted, Adhikary died of heart attack in London while he was the Ambassador of France.

Mr. Ganesh Bahadur Thapa

Tenure: March 25, 1985 – May 22, 1990

Mr. Ganesh Bahadur Thapa, the eighth Governor started his career in the Bank from its very inception. Before his appointment as Governor, Mr. Thapa was affiliated with the UNIDO/UNDP Technical Assistance Project based in Indonesia. Prior to that, he was Deputy Governor at the Bank.

Mr. Thapa's tenure was marked by a number of reforms in financial sector. The interest rate deregulation in May 1986 allowed the commercial banks to fix interest rates on deposits and lending at their own. It was a major breakthrough in liberalized interest rate regime. Prior to that, the interest rate was controlled by the central bank.

A liberal policy on establishing banks and financial institutions was also formulated and implemented. Accordingly, the setting up of banks in joint venture with reputed foreign Banks and in private sector gained momentum. In this connection, Nepal Grindlays Bank (now Nepal Standard Chartered Bank) and Nepal Indo-suez Bank (now Nepal Investment Bank) were set up.

The Agricultural Development Bank was also permitted to conduct banking transactions with a view to make it financially self-sufficient as well as to channelise the resources from urban sector to rural sector. Apart from this, the Finance Company Act, 1986 was enacted to facilitate the establishment of finance companies as the new players in the financial system.

Commercial banks were directed to invest at least 25 percent of their total loan outstanding in productive sector, including 8 percent in priority sector from FY 1984/85. In the later years, the proportion of loan to be invested in productive sector was raised to 40 percent. The ratio of investment in priority sector was again raised to 12 percent in 2047

(1990/91). As a component of priority sector lending, the deprived sector credit was also introduced. Similarly, the Lead Bank Scheme was implemented in 21 districts. The execution, monitoring and supervision of this scheme were vested upon NRB.

The second phase of CSI Project was implemented with the assistance of US$ 10 million from IDA with effect from July 31, 1987. The project extended to 27 districts, was a follow-up operation to the CSI Project conducted since 1982.

The country went through the process of financial sector reform under the Structural Adjustment Program (SAP) during Mr. Thapa's Governorship. In this connection, various monetary and Banking measures were initiated as per the suggestions of both the IMF and World Bank. Some of them include: fixation of minimum capital fund ratio, provision of single borrower limit, change in format of annual accounts of Banks, provision of loan loss, loan classification, issue of government bonds through auction (open market operations), recovery of old loans and setting of Credit Information Bureau (CIB). Amendments in Acts relating to commercial Banks and other financial institutions were also made to supplement the reform programs.

The devaluation of Nepalese currency with Indian currency and other currencies by 14.7 percent, determination of exchange rate of Indian Currency by including it in the currency basket, the provision of maintaining account in foreign exchange, management of Indian currency and setting up of Nepal Bankers Association are some of the important policy decisions during Mr. Thapa's tenure.

The Bank hosted the 22nd Conference of the Governors of SEACEN in Kathmandu.. Similarly, the 6th General Assembly of Asian Pacific Regional Agricultural Credit Association (APRACA) nominated Governor Thapa as the Chairman of its Executive Committee for 1988/89. Thus Governor Thapa concurrently served as the Chairman of the Executive Committee of APRACA of which Nepal Rastra Bank is a founder member.

The staff strength of the Bank as at July 1990 was 2,950.

Upon completion of his first tenure, Mr. Thapa was reappointed in June 10, 1989 for another term of five years. However, he second tenure ended pre-maturely. Since then Mr. Thapa had been attached with various national and international associations such as Foundation for Development Cooperation, based in Australia and international aid agencies like GTZ, IFAD and Micro Credit Project of the World Bank. Mr. Thapa is also contributing his expertise in the field of Banking and finance.

Mr. Hari Shankar Tripathi

Tenure: August 10, 1990 – January 17, 1995

Mr. Hari Shankar Tripathi, like his predecessor Mr. Ganesh Bahadur Thapa, had been associated with the central bank from its establishment. Prior to his appointment as Governor, Mr. Tripathi held the position of Deputy Governor. He had also worked in the IMF as special appointee apart from being a consultant with the FAO in Somalia.

Mr. Tripathi's tenure witnessed the commencement of financial liberalization policy adopted by the government. Hence the monetary and banking policies executed during this period were in conformity with these policies. The Nepalese currency, after passing through partial convertibility, was made fully convertible in current account with effect from March 14, 1993. Nepal's acceptance of Article eighth of IMF on May 30, 1994 reflected the country's its commitment towards liberalization policy. Foreign exchange transaction, including Indian currency, was simplified. The exchange rate of Nepalese currency vis-à-vis the Indian currency was fixed at Rs. 160 from Rs 165 with effect from March 1993.

After a gap of six years, four more commercial banks in joint venture with reputed foreign banks started operations. They include: Himalayan Bank, Nepal SBI Ltd., Nepal Bangladesh Bank and Everest Bank. A policy on branch expansion as per the feasibility and profitability was also formulated.

The establishment of various financial institutions apart from the commercial banks took place. It included finance companies, rural banks, cooperative societies and money changers. Even though the Finance Company Act was enacted about five years ago, no effort to open such companies was made till then. After a minor amendment in the Act, Nepal Housing Finance Development Company was set up as the first company in public sector. It was followed by a private sector finance company, Nepal Finance & Saving Company (NEFISCO). Afterwards, the private sector showed keen interest on opening such companies. As per the provision of Cooperative Act, 1992, the Bank started issuing license to saving and credit cooperatives to transact limited banking transactions. The money exchange business previously monopolized by the commercial banks, was also entrusted to the private sector with a view to provide more efficient services to the general public as well as to the tourists.

A special study on the two public sector banks, NBL and RBB was carried out under the financial assistance of UNDP, by a foreign consulting firm of Booz Allen and Hamilton (Singapore), in view of their deteriorating financial position. The study was conducted in two phases, and is known as CBPASS (Commercial Banks Problems and Strategy Analysis Study). The recommendations of the study were implemented on phasewise basis. Various reforms including increase in capital in the two banks were made as per the recommendations of the study.

The Rural Credit Review Survey (1991/92) was conducted with the technical assistance of ADB. The Survey, which is third of its type, revealed that the flow of institutional credit in the rural sector, despite growth of financial institutions, was not adequate. It also showed that the Agricultural Development Bank and rural branches of commercial banks were the major source of institutional credit. Hence the Survey pointed out the necessity of managing more rural credit in the economy.

The concept of rural banking was also put into practice. Accordingly, two regional rural development banks were set up in eastern and far western development region. The main objective of these banks, operated as Grameen Banking model of Bangladesh, is to uplift the social and economic life of the rural population. These banks disburse micro-credit to the economically backward women on the basis of group guarantee without collateral. Besides, these Banks operate community based services like literacy and social activities for its members.

More efforts were diverted towards providing micro-finance services for the economically weak people. In this context, the Rural Self-Reliance Fund (RSRF) having a corpse fund of Rs. 20 million, was set up by the government with Nepal Rastra Bank as the executing agency. This Fund is aimed at providing small loans to the target group through the cooperatives, non-government organizations and self-help groups (SHGs) in rural areas.

The CSI Project which was ongoing since 1982 was discontinued three years prior to the closing period due to various reasons. It was indeed a setback to the implementation of the priority sector lending. However, the significance of this Project cannot be undermined in view of its contribution in creating awareness and favorable environment for the development of cottage and small scale industries in Nepal.

Upon completion of his tenure as Governor, Mr. Tripathi was appointed as the member of National Planning Commission. Mr. Tripathi is still actively involved in the field of Banking and finance.

Mr. Satyendra Pyara Shrestha

Tenure: January 18, 1995 – January 17, 2000

Mr. Satyendra Pyara Shrerstha, like his two predecessors had long working experience with the central Bank. After serving two years as the Bank's Deputy Governor, he was appointed Governor of the Bank. He had also worked as Senior Economist of the Economic Commission and as the Economic Advisor at the Ministry of Finance. Apart from that Mr. Shrestha had worked as an Advisor in the Executive Director's office at the IMF from 1988 to 1990.

The financial system of Nepal saw rapid development of Banks and financial institutions during Governor Shrestha's tenure. In the context of increasing number of applications for setting up commercial banks, a study was made to ascertain the appropriate number of banks in Nepal so as to create healthy competition and increase economic activities. Based on the recommendations of the study, important amendments were made in the policy framework of establishing banks and financial institutions in relation to issues like requirement of minimum capital as per geographical location, shareholding pattern, branch expansion and the like.

During Governor Shrestha's tenure, four more commercial banks were added in the banking system. They are Bank of Kathmandu, Nepal Bank of Ceylon (now NCC Bank), Lumbini Bank and Nepal Industrial & Commerce Bank.

The concept of development bank was introduced in the financial system with the enactment of Development Bank Act, 1996. Relevant directives on regulation of such banks were issued. The central bank encouraged the private sector to set up development banks by investing certain amount of capital in view of the laxity shown by private sector to open development banks. Apart from this, the Rural Micro-finance Development Centre (RMDC) was promoted as a wholesale micro-finance development Bank, with the Bank's excessive share participation. Apart from this, three more regional rural development Banks were set up in western, mid-western and central development regions. Thus the services of rural banks were expanded in all five development regions.

In the context of growing complexities in the regulation and supervision of the banking system, the related mechanisms of the central Bank were strengthened by bringing out appropriate change in the Bank's organizational structure.

Mr. Shrestha's tenure also coincided with His Majesty the King's 25th years of accession to the throne. To mark this occasion, commemorative currency notes of Rs 250 were issued along with currency notes of Rs. 25 denomination. Improvements were made in the high denomination notes by enhancing their security features.

Dr. Tilak Bahadur Rawal

Tenure: January 18, 2000 - January 17, 2005

The tenure of Dr. Tilak Rawal, as the 11th Governor was marked by the implementation of comprehensive reform program on financial sector, apart from execution of various monetary policies.

The Financial Sector Reform Program (FSRP) was undertaken with the loan assistance of World Bank and grant assistance of Department for International Development (DFID). It constitutes of three components: (a) re-engineering of NRB, (b) Restructuring of NBL and RBB, and (c) capacity building of the financial sector. Under the component dealing with re-engineering of NRB, an American consulting firm, IOS Partners worked towards various aspects such as improvement in supervision manual, reform in organizational structure, implementation of voluntary retirement scheme (VRS) and so on. As explained earlier, the enactment of Nepal Rastra Bank, 2002 by replacing the erstwhile Act of 1955 has significantly enhanced the autonomy of the central Bank. This Act addresses the challenges brought by the evolving finanical sector and focussed the bank's role in effective monetary management for domestic finaical sector stability.

Similarly, the management of NBL and RBB has been undertaken by ICC Consulting, Bank of Scotland (Ireland) for the prior and a foreign team of consultants for the later. The restructuring at these banks are aimed at decreasing the excessive rate of non-performing loans (NPL), increasing profitability, increasing capital fund, updating audit, improving human resource management and adopting advanced technology in operation. Under the capacity building of financial sector, amendments in prudential regulations have been issued. Most importantly, the Banks and Financial Institutions Ordinance (BAFIO) was promulgated as an umbrella Act for all the banks and financial institutions. As per this Ordinance, Banks and financial institutions are categorized as A, B, C and D on the basis of paid capital and area of operation. With this, the various Acts relating to commercial bank, development bank and finance company were scrapped. Relevant amendments have also been effected in the NRB Act, 2002 and the BAFIO. The process of formulating Acts relating to asset management company, money laundering, bankruptcy and secured transaction has been started. The process of setting up a second-tier institution (STI) had also been initiated to look after the regulation and supervision of saving and credit cooperatives.

A new policy on opening of commercial banks has been implemented with effect from May 16, 2002. Accordingly, for setting up a national level commercial bank, the minimum paid-up capital required has been fixed at Rs. 1 billion. Regulations as to the shareholding pattern have also been made. Similarly, regulation of development banks and finance companies has been revised.

The financial system has been further widened by setting up of more banks and financial institutions. In this context, another five commercial banks: Lumbini Bank, Machhapuchhre Bank, Kumari Bank, Laxmi Bank and Siddhartha Bank were established. Thus the total number of commercial Banks reached 17. Similarly, the number of development Banks and finance companies increased to 34 and 59 respectively, while the number of cooperatives and non-government institutions working as financial intermediaries rose to 20 and 47 respectively. Thus the total number of Banks and financial institutions reached 160. The number of commercial Bank branches as at mid-July 2004 stands at 423 (including 44 branches of Agricultural Development Bank performing commercial banking activities). It is also noteworthy that the number of branch of NBL and RBB has declined as compared to the past due to the closure of a number of offices owing to prevailing security reasons. With the increase in the number of these institutions, the volume of transaction also rose substantially. As at mid-July 2004 the total deposits with the financial system reached Rs 2,85,009.5 million, while the loans and advances soared to Rs 1,93,610.3 million which was 57% and 39% respectively of GDP.[17]

With a view to operate the banks on commercial principles, a policy on gradual phasing out the Priority Sector Lending (PSL) has been implemented from F.Y. 2002/03, while retaining the deprived sector lending. Accordingly, the compulsion on investment in PSL by the commercial banks will be completely scrapped by FY 2008/09. A policy of earmarking 5 percent of the commercial bank's profit annually for the Rural Self-Reliance Fund (RSRF) was also executed by the government. This provision was made with a view to make the funds available for the rural sector in the context of the phasing out of the PSL in the future.

The Vision and Mission statement of the Bank was published for the first time which is later explained. The Bank's activities are guided by such a statement. The process of publishing the Bank's monetary policy annually for public dissemination and maintaining the accounting and internal auditing standard at par with international standard, have also been initiated.

Polymer notes of Rs. 10 denomination have been introduced and issued for the first time in Nepal. Security features have also been enhanced in the currency notes of high denomination to check counterfeiting.

Mr. Deependra Purush Dhakal

Tenure: August 29, 2000 – April 27, 2001

Mr. Deependra Purush Dhakal, the twelfth Governor, had a long career in the civil service of HMG, including in Finance and Tourism Ministries. Prior to his appointment as the Governor, Mr. Dhakal had been one of the Board members of the Bank. His tenure at the Bank lasted only for seven months as Dr. Tilak Rawal, who was earlier removed by HMG, was reinstated as the Governor with the verdict of the Supreme Court. During this period the process of financial sector reform was continued. In this connection, the process of contracting out the management of NBL and RBB was initiated. Prudential regulations for banks and financial institutions were revised. Some organizational reforms also took place.

Mr. Bijaya Nath Bhattarai

Tenure: January 31, 2005 –

The present Governor, Mr. Bijaya Nath Bhattarai is the thirteenth Governor of the Bank succeeding Dr. Tilak Rawal. Mr. Bhattarai is a seasoned central Banker as he has been associated with the Bank for more than three decades in different capacities, mostly in the Research Department, including the Deputy Governor of the Bank. Mr. Bhattarai is the first Governor to be appointed following the enactment of the Nepal Rastra Bank Act, 2002, wherein the position is appointed on the basis of the recommendation of a Recommendation Committee.

The beginning of Governor Bhattarai's tenure coincides with the Bank's Golden Jubilee year 2005. A number of events and programs have been organized throughout the year to mark the Golden Jubilee celebrations.

While continuing the financial sector reform programs, which aims at improving the efficiency and effectiveness of the domestic finanical sector., the new Governor has the responsibility of maintaining banking discipline for the overall stability of the financial sector. As is evident, the financial system of the country over the years has been moving to be highly competitive and innovative, particularly due to the increasing number of financial players and the complexities therein. The recovery of bad loan of the two big commercial Banks, NBL and RBB which cover a large portion of the total volume of the banking transactions, has been a hindrance to the effective implementation of the FSRP. Tackling with willful defaulters has also been a burning issue. For this, a high-level committee chaired by the Vice-Chairman, National Planning Commission, has presented its report to the government. The implementation of the recommendations of the study is equally challenging.

The challenge of establishing the NRB as a modern, dynamic, credible and effective central bank, as envisaged by the Bank's vision, apart from the objectives set by the Nepal Rastra Bank Act, 2002, has to be duly addressed by the Bank's new leadership.

Apart from these, the Bank's present leadership has to face the challenges of implementing various issues related to the monetary policy as explained in the forthcoming paragraphs. With his long association with the central Bank in various capacities, it is expected that the new Governor will undoubtedly be able to skillfully and professionally lead the Bank in overcoming these challenges in a dynamic manner.

Problems and Challenges

The leadership of Nepal Rastra Bank has been facing problems and challenges of varied nature right from its establishment. The Bank's objectives set in the Act of 1955 were in fact the challenges for the corporate leadership in those days. However, the capable, devoted and dynamic leadership had tackled such challenges efficiently. The Bank has been successfully performing its traditional functions while playing a developmental, promotional and the stabilization role in the Kingdom of Nepal.

The success story of the Nepal Rastra Bank is attributed to the people working at the leadership level, who left no stone unturned in their endeavor to achieve the stipulated objectives. As the leadership has matured, more problems and challenges have also tended to emerge. This is in fact a never ending process, particularly in the context of liberalization, privatization and globalization. The current challenges of the Bank in particular, relate to the implementation of the monetary policy and widening of financial system.

The banks and financial institutions are the means of implementing the monetary policies. For efficient monetary management, the financial health of the Banks and financial institutions should be sound. However, the effectiveness of such policies has been threatened due to the financial position of NBL and RBB which presently covers about 40 percent of the total transaction of the banking sector. Although the management of these commercial banks has been contracted out, their financial health has not improved to a satisfactory level. This has posed challenge to the effective monetary management.

The alarming proportion of nonperforming loan (NPL) in commercial banks, including private sector Banks owing to, among others, the slowdown of economic activities and industrial sickness has adverse effect on the implementation of monetary policy. The lack of loan recycling tend to discourage the private sector investment. The central bank's leadership should properly address this problem.

The financial system has grown to be highly integrated, innovative and competitive in the context of liberalization; it is not desirable to intervene the operations of the banks and financial institutions. They are supposed to operate in healthy competition and offer better service to the clients. However, at times these expectations are not materialized. One such instance can be taken in relation to interest rate spread which is considered to be the cost of financial intermediation. The central bank had earlier scrapped the ceiling on interest rate spread mechanism with a view to foster healthy competition among the Banks and thereby benefit both the borrowers and the depositors. However, the banks tend to increase the spread rate causing higher rate of interest in lending while lowering the rate for deposits which have had an adverse effect on the overall investment. It has posed a threat for attaining the objectives of the monetary policy.

Financial liberalization has resulted in increasing number of Banks and financial institutions in private sector as well as in joint venture with foreign banks. While this has fostered greater competition among the Banks, this has also created complexities in the financial system. It calls for more effective mechanism of regulation and supervision for protecting the depositors' interest, particularly after Nepal's membership with the World Trade Organization (WTO) there is increasing probability that foreign Banks will open their offices in Nepal. It will enhance more competition in the banking sector. As the host country supervisor more challenges in this field are forthcoming.

Legal reforms in the financial sector are to be accomplished in time so as to develop legal fundamentals. This will boost the effectiveness of the monetary policy.

Likewise, the circulation of Indian currency in counterfeit notes is still prevalent in many areas particularly in Terai and hilly regions. It is a very difficult task to do away with these problems. Despite development of the financial system as compared to the past, cash transaction is still popular in the Nepalese economy. Steps are yet to be taken towards encouraging the non-cash transaction from the viewpoint of security and simplicity.

Central banks in most of the countries do not involve themselves in managing micro-finance. However, in the context of Nepal, the Bank has to involve itself in this sector particularly due to the necessity to manage fund for the people living in extreme poverty in the country. One section of people are not in favor of the central bank's involvement in micro-credit, while another section emphasize that the Bank should take a lead role in the context of a less developed country like ours. As commercial Banks tend to operate in strict commercial principles, it is likely that the flow of micro-finance services to the economically backward sector may be affected. Despite the development of financial system, the access of rural credit is very limited as revealed by the surveys relating to agricultural credit review. This is further deteriorated by the threat posed by the existing situation of security in the country resulting in discontinuation of banking services in many places. It can be evidenced by the decreased number of Bank branches as compared to the past. Thus people living at the rural sector have been deprived of banking facility. It is a great setback to the financial system. The leadership of the central bank has to frame appropriate policies and regulations to address the above challenges.

Conclusion

Corporate leadership of the Nepal Rastra Bank is linked with its evolution. In fact, the leadership at the evolutionary period of the Bank in the mid-fifties had faced unique challenges of a dual currency period and unstable exchange rate of the Nepalese currency vis-à-vis the Indian currency. The banking system was primitive and underdeveloped. There was only one commercial Bank with few branches serving in urban areas. There was virtual absence of infrastructure for development. Lack of industries led to overdependence on import from India. However, the Bank was able to achieve success in meeting all these challenges over the years. By the end of the first decade of the Bank's establishment, the dual currency system was abolished and the exchange rate between the Nepalese and Indian currency was stabilized. In the later decades, the Bank diverted its attention to developing the banking system in the country. Accordingly, various monetary and banking policies were introduced. Since the mid-eighties the Bank has embarked upon executing appropriate policies conducive to the changing economic and financial scenario. All these success stories can be attributed to the Bank's capable and dynamic leadership over a period of five decades. In this respect, the Bank's Governors as the leading persons had efficiently demonstrated the leadership skills. The Nepalese economy and the banking system have been immensely benefited from the rich experience, expertise and professionalism of the Governors. The country has witnessed continuous refinements of policies relating to monetary, banking and development finance over the years. The tireless efforts and dedication of the Governors who provided dynamic leadership have contributed towards shaping today's Nepal Rastra Bank as a prestigious institution. The expression made by Mr. Pierre-Paul Schweitger, the past Managing Director of IMF (1963-1993), during his visit to Nepal more than three decades ago, on NRB as "one of the best managed central Banks in the world" can be taken as a testimony of the Bank's image.

The legal framework as provisioned in the Nepal Rastra Bank Act, 2002 has laid down transparent provisions that emphasize appointment of qualified and capable leadership having high morale and ethics so as to enable them to perform their responsibilities efficiently. The Act has also stabilized the tenure of the people at leadership level by setting out clear-cut grounds for their removal. A significant aspect of the Act is the elimination of discretionary power vested with the government to remove the leadership. In the absence of this provision many Governors in the past were either dismissed by the government or forced to resign.

There is no doubt that the corporate leadership of Nepal Rastra Bank has been dynamic from the very beginning. However, as time passes by, the challenges for leadership go on increasing. Time has come to bring in more vision and far-sightedness to cope with the challenges. In view of the open economy and Nepal's affiliation with WTO, more challenges are forthcoming in the economy. As the financial system is widened, the magnitude of problems and complexities are also obviously expected to be in rise. For maintaining proper financial discipline and stability in the overall financial system, the regulation and supervision of banks and financial institutions have to be further strengthened at par with international standard.

Leading a central bank has always been a crucial issue. Therefore, the leadership should have thorough insight into all the contemporary issues. Participative management approach may be required to achieve the vision and the mission of the Bank. C.B. Mamoria has rightly pointed out the necessity of qualities of a leader to cope with the emerging problems and challenges. He opines, "…*a good leader should possess qualities like energy, emotional maturity and stability, knowledge of human relations, objectivity, empathy, personal motivation, technical competence, integrity, conceptual skill, flexibility of mind* …"[18] These are equally relevant in the case of the Bank's corporate leadership.

While the Nepal Rastra Bank Act, 2002, has enhanced autonomy, the people taking the lead should be able to preserve it and put into practice. It should always strive for maintaining money supply at desired level and increasing economic activities in the country through implementation of appropriate monetary policies. It should concentrate on the vital decision making process rather than involving in administrative matters. For this purpose, it is felt necessary for having proper delegation of authority.

With the inclusion of the broad objectives in the Nepal Rastra Bank Act 2002, apart from the extended financial system followed by globalization, the central Bank's role has also been changing over the years. It calls for putting more efforts on having a financial system which is healthy, safe and sound for ensuring overall financial stability. Hence more dynamism, enthusiasm and devotion on the part of the corporate leadership is vitally essential to achieve the mission and vision that can lead to develop the Nepal Rastra Bank as the central bank of the twenty-first century.

Annexure A
Board of Directors
(As at mid-April 2005)

Chairman
1. Mr. Bijaya Nath Bhattarai, Governor

Members
2. Mr. Bhanu Prasad Acharya, Secretary, Ministry of Finance
3. Dr. Parasar Koirala, Dean, Tribhuwan University
4. Mr. Pradeep Kumar Shrestha
5. Dr. Bishwa Keshar Maskay, Professor, Tribhuwan University
6. Mr. Lekh Nath Bhushal, Deputy Governor
7. Mr. Krishna Bahadur Manandhar, Deputy Governor

Annexure B
Deputy Governors of the Bank

		Tenure		
1.	Mr. Dhir Bikram Shah	1969	-	1974
2.	Mr. Kumar Das Shrestha	1969	-	1974
3.	Mr. Yudhir Shumsher Thapa	1974	-	1981
4.	Mr. Ganesh Bahadur Thapa	1974	-	1978
5.	Mr. Ishwari Raj Pandey	1979	-	1982
6.	Mr. Laba Raj Sharma	1982	-	1987
7.	Mr. Hari Shankar Tripathi	1985	-	1990
8.	Mr. Hiranya Lal Bajracharya	1987	-	1992
9.	Mr. Achyut Prasad Poudyal	1991	-	1992
10.	Dr. Harihar Dev Pant	1992	-	1995
11.	Mr. Satyendra Pyara Shrestha	1992	-	1995
12.	Dr. Puspa Raj Rajkarnikar	1995	-	1995
13.	Dr. Prafulla Kumar Kafle	1995	-	2000
14.	Mr. Bharat Krishna Sharma	1995	-	2000
15.	Mr. Ram Babu Pant	2000	–	2005
16.	Mr. Bijaya Nath Bhattarai	2000	-	2005
Current Deputy Governors				
17.	Mr. Lekh Nath Bhusal	2005	-	
18.	Mr. Krishna Bahadur Manandhar	2005	-	

Annexure C

Directors of the Bank

	Tenure					Tenure		
Mr. Nara Pratap Thapa	1956	-	1960		Prof. Khelendra Prasad Pandey	1979	-	1980
Mr. Krishna B.Mugali Thapa	1956	-	1959		Mr. Bhuban Man Singh	1979	-	1983
Mr. Hiranya Dhoj Joshi	1956	-	1960		Mr. Ram Prasad Sharma	1979		
Mr. Gaya Prasad Shah	1956	-	1957		Mr. Surya Prasad Shrestha	1980	-	1982
Mr. Parikshit Narsingh Rana	1958	-	1959		Mr. Gorakshya B.Nhuchhe Pradhan	1980	-	1981
Mr. Laxmi Nath Gautam	1958	-	1959		Dr. Parthibeshwar P. Timilsina	1980	-	1983
Mr. Ram Prasad Joshi	1959	-	1960		Mr. Jitendra Lal Maskey	1981		
Dr. Yadav Prasad Pant	1960	-	1965, 1966-1967		Mr. Karna Dhoj Adhikary	1981	-	1985
Mr. Harihar Jung Thapa	1960,1971-1972				Mr. Shankar Krishna Malla	1981	-	1983
Mr. Puskar Nath Pant	1960,1965-1966, 1969				Dr. Mahesh Banskota	1983	-	1987
Mr. Sri Jung Shah	1961	-	1963		Mr. Janak Bahadur Shaha	1984	-	1987
Mr. Sumer Mal Dugad	1961	-	1963		Mr. Lok Bahadur Shrestha	1985	-	1989
Mr. Pradyumna Lal Rajbhandari	1961	-	1963		Mr. Radha Raman Upadhyay	1986	-	1989
Mr. Krishna Bam Malla	1963	-	1965		Dr. Badri Prasad Shrestha	1987	-	1991
Mr. Naresh Man Singh	1963	-	1967		Mr. Madhukar Shumsher J.B.R.	1987	-	1990
Mr. Lila Prasad Lohani	1963	-	1967, 1969-1975		Dr. Shashi Narayan Shah	1989	-	1992
Mr. Shiva Narayan Das	1965	-	1966		Mr. Bhuwaneshwar Khatri	1989	-	1990
Mr. Kumar Mani Acharya Dikshit	1966	-	1967, 1967-1969		Dr. Guna Nidhi Sharma	1990	-	1991
Dr. Bhekh Bahadur Thapa	1967	-	1971		Mr. Ganapat Lal Rajbhandari	1991		
Mr. Kalyana Bikram Adhikary	1967	-	1969		Dr. Narsingh Narayan Singh	1991	-	1992
Mr. Mani Harsha Jyoti	1967	-	1973		Mr. Prithvi Raj Ligal	1991	-	1994
Mr. Bishnu Prasad Dhital	1969				Dr. Thakur Nath Pant	1992	-	1994
Mr. Bharat Bahadur Pradhan	1972	-	1976		Mr. Punya Prasad Dahal	1992	-	1995
Mr. Pashupati Shumsher J.B.R.	1973	-	1975		Dr. Dilli Raj Khanal	1995	-	
Dr. Mohan Man Sainju	1975	-	1979		Mr. Ram Binod Bhattarai	1994	-	2000
Mr. Hari Prasad Giri	1975	-	1978		Dr. Bhola Nath Chalise	1995	-	1999
Mr. Devendra Raj Upadhyay	1975	-	1976		Dr. Rabindra Kumar Shakya	1995	–	1999
Mr. Nara Kant Adhikary	1976	-	1978		Mr. Rajeswar Acharya	1996	–	1998
Mr. P.B.Bista	1976	-	1977		Dr. Shankar Prasad Sharma	1999	–	2002
Mr. Ishwari Lal Shrestha	1977	-	1978, 1982-1986		Dr. Bimal Prasad Koirala	2001	–	
Mr. Dirgha Raj Koirala	1978	-	1979		**Current Board Members**			
Dr. Devendra Raj Pandey	1978	-	1979		Dr. Parasar Koirala	1998	–	
Mr. Indra Bhakta Shrestha	1978	-	1979		Mr. Pradeep Kumar Shrestha	2001	–	
					Mr. Bhanu Prasad Acharya	2002	–	
					Dr. Biswa Keshar Maskey	2002	–	

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Organizational Development and Corporate Planning

Lila Prakash Sitaula

Director, Banks and Financial Institutions Regulation Department

Introduction

In Today's world, management principle is not only going to be breathing of corporate life has become an inseparable and unavoidable part of social life. Management and organizations are complementary and synonymous which in most of the cases signifies the similar fragrance in the literary world. Organization Development (OD) is a new integrated approach of the social systems originated in the 1950s and 1960s, in which people are strongly influenced by the organizational culture. In the initial days, it was more focused on training and skill development but these days it seeks to change beliefs, attitudes, values, strategies, structures and practices, so that the organization can better adapt to competitive actions, technological advancements, and to the fast pace of other changes in the environment. For the practical purpose, we do generally accept OD in broader concept of system, process and art that could acknowledge the organizational culture and change. This article does not emphasize on theoretical aspects such as characteristic and approaches to change, and models, processes, underlying assumptions of the subject matter rather focus laid to portrayed how Nepal Rastra Bank, stood sound and strong on the test of theoretical background of organizational development and what kinds of challenges it has faced for the last forty-nine years of its inception in the context of discharging duties and responsibilities. Further, an attempt has been made to analyze about the endeavor of the Bank to develop the corporate planning culture to nurture and realize the objectives as enshrined in the preamble of the Act in different time series. This article also deals with the organizational restructuring process followed by to cater the needs of changing situation in financial world and some suggestions have also been presented to galvanize and substantiate the organizational worth in the society.

Meaning and Definition

OD transforms the organizational culture combined with the shared beliefs, values and behaviors by working with social and technical systems such as culture, work processes, communication and rewards. The method in the process is using planned change based on research to increase motivation, remove obstacles and make change process easier. Satisfying external stakeholders is another key consideration of promulgating the motto of cultural change. According to Webster Collegiate Dictionary, OD is "the act or process of organizing or of being organized, the condition or manner of being organized or an "association or society or administrative and functional structure also the personnel of such structure." Stoner, Freeman & Gilbert defines organization as "two or more people who work together in a structured way to achieve a specific goal or set of goals" and Organizational Development as "a top management-supported, long-range effort to improve an organization's problem-solving and renewal process, particularly through a more effective and collaborative diagnosis and management of organization culture- with special emphasis on formal work team, temporary team and intergroup culture-with assistance of consultant-facilitator and the use of the theory and the technology of applied behavioral science, including action research". John W. Newstorm & K.Davis defines OD as "the systemic application of behavioral science knowledge at various levels like group, intergroup and total organization to bring about planned change with the objectives of a higher quality of work life, productivity, adaptability and effectiveness". The most potent tool, therefore, for improvement is cultural change. The overall goal of the organizational development is to enhance and sustain the long-term health and achievement of the organization by cultural change and new innovation which can be reflected in enriching and motivating the human resource within the organization. It is felt that many of the approaches to planned change are appropriate for solving immediate and specific problems. OD in contrast is a longer-term, more encompassing, more complex and costly approach to change that aims to move the entire organization to a higher level of functioning while greatly improving its members' performance and satisfaction. Although OD frequently includes structural and technological changes, its primary focus is on changing people and the nature and quality of their working relationships.

In organization, internal stakeholders mainly employees, management and unions are controllable that can be managed within the managerial framework by using the charismatic art of management whereas it is somehow complex and complicated to deal and satisfy the external stakeholders, like government, local community, shareholder, suppliers, customers etc. - this is because of the nature of structure in stakeholders' mix. Today media people are more sensitive in gauging the quality of delivery of goods and services. Beside this, internal content factors including business strategy, management conditions, task technology and external content factors such as laws, societal values, labor market, technological change etc, are also pivotal determinants of the performance of the organization. Organizations are not limited to attain the objective of wealth maximization and societal orientation but also emphasizes organizational culture of change and development, which eventually influences the way people work. In this process, a regular and continue efforts of consolidation, mobilization and innovation of existing and potential human resources are absolutely necessary to understand the organizational development philosophy.

Organization and management also contribute to present quality of life by making available of a wide range of goods and services. It creates desirable futures and help individuals do the same by keeping the past and present in mind. Organization and management help connect people to their past on mutuality and human relation which is created by the people. In a nutshell, OD should be observed from three basic perspectives such as (a) problem-solving processes, refers to the organization's method of dealing with the threats and opportunities in its environment, (b) the renewal process, refers to the way managers adapt their problem-solving processes to the environment and (c) collaborative management, refers to the sharing of management power and subordinate participation, the opposite of hierarchical imposition of authority.

Fundamentals of Organization and Structure

In any organization, people are the soul while the goals are the essence. Team spirit or group dynamics is essential for any successful organization. Further, an organization is always based on structure, thus each and every organization has proper structure to justify their survival. The vision, mission and the objectives of the organization are prime factors to outline the structure of the organization. Besides, nature, size, scope and significance are additional elements, which also could play vital role in determining the organizational structure. Achievement or performance is the ultimate conclusion of the organization and proper evaluation only could be done in results. If the desired output achieved and address the marketing mix, the said stakeholders and customers segment could be satisfied. Efficiency, the ability to minimize the use of resources in achieving organizational objectives that is 'doing things right' and effectiveness, the ability to determine appropriate objectives, that is 'doing the right thing' measures the performance or 'how well organization achieves appropriate objectives'. Performance enhancement and healthy growth of the organization is only possible through the mutual efforts that should be reflected in structure. J. Walton says, "Organizations do not 'do' anything, they do not 'act' or possess a 'business brain' that enables them to choose. They are no more than frameworks, contrivances, which enable numbers of people to do things and achieve outcomes which individually would not have been possible". Whatever is the form of structures, vertical or horizontal, flat or tall; it should represent and cater the needs of the organization. Inappropriate structure invites unnecessary cost of production, jeopardize efficiency and productivity, cannot address the challenges and also unable to fulfill the organizational needs. It is, therefore essential to frame an ideal structure that helps to achieve the ultimate objectives of the organization, and also strengthen the process and the system of organizational development.

Importance of Organization Development

Organizational development helps all types of organization such as banks, companies, business enterprises and governments by

- Empowering management leaders and individual employees,
- Creating an environment by concentrating the minds of human resource to work,
- Providing top management more control over results, and employees more control over how they discharge their duties and responsibilities,
- Increasing motivation, job satisfaction, teamwork, quality of work and overall productivity,
- Developing a culture of continuous improvements, refinements and configuration around vision, mission and shared goals,
- Making change simple, easier and faster so as to foster the group dynamics,
- Enhancing the quality and speed of decision-making at all levels,
- Ensuring stakeholders a constructive conflict management that could fence the possible situation of tension between/among employees and management.

Benefits of Organizational Development

The consequences of organizational development may comprise enhancements in:

- Overall profitability for profit-making organization and long-term sustainability even for non-profit making organization,
- Continuous innovation, research and development,
- High customer satisfaction as well as job, work, and life satisfaction of employees,
- Organizational suppleness in development process,
- Individual feelings of effectiveness and commitments,
- Quality product and service and maximum cost effectiveness.

Scope of Organizational Development

As stated above, OD is a continuous process and meaningful to all kinds of organization whether it is private sector or public sector or it is profit –making or non-profit making entity especially in those organizations, where the following organizational variables are taking into high consideration:

- Employees and functional areas have the same goals.
- Free and valid flow of information at all levels, laterally and vertically, and all relevant facts and feelings are shared. Learning process can be taken as common character and people can learn from past experience.
- Wide involvement and well integrated through linking processes; people make decisions with the most relevant and best of knowledge.
- Economic rewards based on justifiable compensation system developed through genuine participation especially from the trade unions.
- High degree of mutual trust and confidence to resolve the conflict constructively - where it is used for innovation, not suppressed or allowed to interfere with productivity.
- People are key factors that determine the complete achievement and they should be rewarded for their success.
- Customers' orientation is prime consideration. Customers' needs are always known and perceived about by employees and management.
- People should not be punished for failure of innovation or creativity, so innovation is high.

- Developed processes and organizational structures are based on present needs rather than past needs or facts, so they are efficient and help people.

Limitations of Organizational Development

There are some problems and limitations of OD to which dynamic management has to identify and assess before making attempts to translate it into practice:

- It is time consuming and less cost effective.
- The possible benefits have a delayed payoff, and an organization may not be able to wait that long period of time for potential benefits.
- There may be high possibility of failure of implementing the principles due to its complex theoretical methods and conceptual ambiguity.
- The methods are questionable on the ground that there is the possibility of invasion of privacy and psychological harm.
- It emphasizes merely on group processes rather than performance.

Corporate Planning

Planning is an essential component of overall management process. Any organization desires to achieve its goal through the best decision that usually invites the time dimension. The result or the impact of present decision will be felt in immediate or long range future. Planning is therefore a decision rule but it does not mean that all decisions are planning. Peter Drukker describes planning as the futurity of decisions. The concept of corporate planning is as old as the science of management itself. Henri Fayol belonging to the classical school spoke about planning as early as in 1916. The usage of this field of management originated in the 1950s and the publication in 1958 of Long Range Planning for Management edited by David W. Ewing further reinforced the subject as a distinct area of research. Le Breton and Henning further provided theoretical and conceptual framework for the development of the subject in their book 'Planning Theory' in 1961.Since then there has been phenomenal explosion of interest as the increasing uncertainty and complexity in the corporate environment provided an impetus for the study and research in planning. Now the literature on the subject has been so much developed that there are abundant reference materials available on different aspects of corporate planning issues. In the same manner the use of corporate planning process becoming a sine qua non in all corporate sector organizations to achieve the ultimate objectives.

In the words of R.L. Ackoff, "planning is the design of desired future and effective ways of bringing it about". So, designing of a desired future of an organization mainly is the function of the top management. Survival and satisfactory performance resulted from the skill of the top management is to be reflected in systematic planning process. Appraising the glimpse of change and taking advantage of new opportunities by adopting a modified demand conditions is basically possible by the strategic planning. In the corporate planning context, today's environment is completely different from the various perspective and dynamics. Globalization, multi-national collaboration, competitive advantage, technological advancement are some of those environments, which have contributed tremendously to built up different organization culture of strategic planning. That is why; it is pervasively used today as a management tool to help an organization to do better performance and to ensure that all members of the organization are trying their best to achieve the same goal. It is a disciplined effort to produce fundamental decisions and actions that shape and guide what an organization is, what it does it and why it does it with a focus in the future. Strategic planning itself is a process because it involves intentionally setting goals and also preparing the best way to respond to the circumstances of the organization's environment whether or not those circumstances are known in advance. Growing complexities and proliferating size of the organization, complex and unpredictable environmental constraints, severe competitive condition in the market have created a lot of uncertainties. That is why it is almost impossible to the management of modern organization to frame and handle the overall corporate planning strategically without broad participation of the people. But the leader, who is normally to be appointed for a fixed period of time, has to visualize the future path and also perceive the best series of actions that lead organization to attain the vision and mission. It is more important to the organization like Central bank. Strategic Planning has thus developed as a separate specialized function to support the top management to realize its vision and mission by organizational decisions and actions through organizing, leading and controlling activities but active participation and commitment of the chief executive is still the fundamental prerequisite for the successful corporate planning process.

Corporate Planning as a management function is necessary at least for deriving tasks for various functions in the organization in line with vision and mission even though it can be complex, challenging and even messy. If it is taken as a culture of work and commitment to preserve the organizational value, planning drives the organization towards the desired direction of fostering functional objectives. Planning enhance and establish the culture of right anticipating and synchronizes the various elements of action in the present. Coordinated effort and extensive participation to maximize collective effectiveness is the essence of corporate planning. Planner should understand that corporate planning, as a tool alone does not do anything without proper response by the people. That is why it should be taken as inclusive process. If it is taken as creative process, corporate planning could be indispensable and inevitable practice without making it mechanical exercises in a successful organization.

In the planning process, various approaches are put in place and some are feasible and some are simply for intellectual exercise. However, Ackoff identifies three basic approaches to corporate planning. A simplistic approach would be towards satisfying the planning by setting objectives and strategies that are believed to be both feasible and desirable. Mutuality, participation, and general acceptance are the prime concern for any successful approach. The usual bottom-up approach leads to an aggregate plan. Where as Top-down approach again tend to arrive at an autocratic plan. Therefore, an ideal process would be somewhere in between the two as the both the processes are desirable to some extent. Whatever the approach is identified, planning should support the strategic thinking that requires and leads to strategic management, which is the basis for effective organization. Strategic thinking is related to the question as "are we doing the right things" and strategic management basically denotes the application of strategic thinking which addresses three basic elements such as (a) formulation of the organization's future mission in light of changing external factors such as regulation, competition, technology and customers, (b) development of a competitive strategy to achieve the mission and (c) creation of an organizational structure which will deploy resources to successfully carry out its competitive strategy. But the important thing is whether the organization is marching towards framing the corporate planning that would employ a comprehensive statement of actions and also ensure the identification, prioritization and accomplishment of goals.

Sometime corporate planning or long-range planning and strategic planning can be seen interchangeably used, but the earlier differs from the later on the assumption of predictability of the future, meaning current knowledge and information about the future is perfect and complete. The organization, therefore presumes that the plans are adequate for accomplishing the set of goals over the period of time. Whereas strategic planning assumes the unpredictability of ever changing environments and organization must be responsive to dynamic changing environmental circumstances. Merely considering the periodicity of or time span covered in a planning exercise, which is generally determined by technological changes (its growth curve), nature of business and business cycle, distinction can be drawn between:

(a) Long-term Perspective Plan where efforts are generally made to develop a long-term, usually over ten years, perspective plans and programs on the assumptions that current knowledge about the future condition is sufficiently reliable to enable to development of these plans. This type of planning is not feasible and practicable in those organizations where the review in actions and strategies becomes a frequent phenomenon.

(b) Medium-term strategic plan where formulation of corporate vision, mission and objectives and selection of alternative means to attain them are developed and conducted. The major assumption in strategic planning is that an organization must be responsive to dynamic and changing environmental constraints.

(c) Short term tactical plans which concern only with selecting alternative means to attain the specified goals because in the short run, there are very few chances of mobilizing potential resources due to the fixed nature of periodicity to the large extent.

Steps in Corporate Planning

Conceptually, the steps of corporate planning would involve the top management to reassess its current strategies in the light of its objectives by looking for opportunities and threats in the environment as external variables and by analyzing the company's strength and weaknesses as internal variables. The management then will draw up several alternative strategies keeping values and goals into mind and appraise them against the long-term objectives of the organization. However, there is no such hard-nosed approach to follow the steps for formulating perfect corporate planning. Depending upon the nature, size, scope and available resources of the organization, followings are the major different steps that are to be taken with greater vigilance while designing the good corporate plan:

- **Initial preparation:** In the beginning, an organization should be prepared with all apparatus within the structure to get ready for corporate planning. Here, an organization assesses itself whether it is ready or not from the involvement, inclusion and commitment point of view. As we explained above, planning need devotion, determination and creativity. An organization that is indeed ready to begin corporate planning, must perform at least five tasks such as identifying specific issues, clarifying the roles and responsibility of individuals, departments and units in the process, forming a formal structure that might be Corporate Planning Committee (CPC), develop an organizational profile and identifying sources of information to pave the way for an organized and systematic process.
- **Articulating vision-mission statement:** This is another important step where vision presents the image of what success will look organization's work and mission statement signifies the existence of organization. Some highly reputed organizations also present their value that provides guiding principle and beliefs to their all members of the organization to move to pursue the vision and mission
- **Assessment of environment:** The next important component is assessment of situation that organization should always be aware of environmental constraints and circumstances. Internal environments such as strength and weaknesses and external variables such as threats and opportunities have always been playing pivotal role in planning process. A list of critical issues that demand a response from the organization and a database of quality information that can be used for decision-making are most fundamentals for effective planning process.
- **Identifying strategies:** This step is basically related to the future strategic direction. After having vision –mission statement and identifying its critical issues it is important to figure out the strategies to be taken and the general goals and specific objectives to be sought with sufficient discussion and interaction in all level and layers within the organization's structure. An adequate time is to be given to draft the strategies and repetitive attempts to be made in Corporate Planning Committee.

Salient Features of Corporate Planning

There is no any hard and fast rule for what characteristics should have to embody in a planning however, it is said that any good corporate planning should have at least the following features:

- **Creative process:** corporate planning is a creative process that involves intentionally setting goals that signifies the selection of desired future and developing an approach to achieving those goals.
- **Strategic process:** It is always strategic because of the assumption of unpredictability of future dynamics. The process, therefore, involves preparing the best way to respond to the circumstances of the organization's environment whether or not its environmental constraints are well understood in advance.
- **Managerial tool:** Any well corporate plan should be an effective tool that helps to planner to examine the past experiences, test the possible assumptions, gather, incorporate and analyze data and anticipate the hostile environmental constraints in which the organization will be working in the future.
- **Pervasive discipline:** Organization basically requires the prioritization of actions to achieve the objectives but merely prioritizing the plan, it does not extract the desired output. Therefore, the planners should pay due attention to put series of actions into certain order and special pattern so that the actions of priorities would get more focus and can be made more productive. However it is always considerable that it does not move and flow in similar pattern in a consistent way at all the time and could be changed as per the future mode of requirement.
- **Series of actions and decisions:** Corporate planning is fundamentally no more and no less than a set of actions and decisions about what to do, why

to do and how to do it. It is general principle that it is impossible to do everything that needs to be done in this world that is why choices among alternatives in order to have best decision is the ultimate destination of the human capability.

Benefits of Corporate Planning

For all types of organizations, planning needs a great deal of scare resources and a valuable commodity. It is dynamic process that eventually defines the desired direction and activities in the organization. As discussed above, it is a tool that helps the leader and all level of decision makers of the institution to realize the vision and mission within a given period of time. Planning process, therefore, should outline theirs duties and responsibilities to be discharged in an effective and efficient manner even in case of crisis. We can summarize some of the important benefits as follows:

- It provides a clear framework and precisely defined direction that guides and supports the management of the organization.
- It prescribes a uniform vision and Mission statement that has to be shared in all tires of organizational structure.
- It helps to generate and deliver quality services for all stakeholders and also provides an effective means for gauging the quality of delivered services.
- It is the planning that leads to all units and human resource with firm commitment to the direction of pursuing ultimate goals of the organization.
- It energizes the organization for the optimum utilization of the available resources, and motivates to inoculate the future potentialities.
- It not only creates an ability to arrange the priorities and to match existing resources to opportunities but also to deal with possible risks from external environments.

Prerequisites of Corporate Planning

Corporate planning process should not be regarded as a simple formality. If it is taken as ritual, it does not produce any satisfactory result. Therefore, planner should start up planning process with complete preparation and readiness with vivid purpose. Before proceeding to the planning process, concerned authority should be ensured that the following elements are properly addressed:

- A determination of committed and involved leadership throughout the whole planning process.
- A wide resolution of major problems that may intervene with the planning, commitment and participation.
- An integrated and coordinated approach between and among the board of the directors, departments/units and employees.
- Concerned parties especially the board and staff understand the purpose of the corporate planning and broad consensus of aspirations.
- A projection and commitment of resources to finance the prioritized plans and programs.
- A readiness to judge the prevailing situation in realistic fashion and to visualize the new pragmatic approaches to performing and evaluating the overall operation of the organization.

Practice of Corporate Planning in Nepal Rastra Bank

Corporate planning in Nepal is at an emtrymetic stage, mainly to limited annual budgeting. In fact, comprehensive corporate planning is almost non-existent in all public enterprises. However, Nepal Rastra Bank, established in April 25, 1956, as an apex, resourceful and prestigious organization has been adopting a culture of planning although the initial level was, small and medium merely confined in the course of actions and decisions. As stated, the first three decades of the Bank was spending on banking, foreign exchange and development finance functions. In following and the fourth decade, the Bank has attempted for licensing the numbers of joint venture and private sector commercial banks. Liberalized financial policies and growing number of banks and other financial institutions have urged the bank further strengthening regulatory and supervisory role and responsibility. As such, the whole attention of the bank was diverted in those functions up to the early 1990. Since 1992, it is felt that the bank has envisaged the core function of monetary policy and the plans and decisions were made accordingly.

The initiation of corporate planning in the Bank, can be righted in the first annual management symposium in May 1979 organized by the then Organization and Methodology Division (O&M) – this is considered as the milestone of formal planning culture. Since then the annual meeting of head of all departments and branch offices with annual plans and programs and proposed budget for coming fiscal year, has become a regular phenomena in the bank in the consecutive years till 1990. For the first time, the bank has started the systematic annual planning with clear departmental mission as "Mission of the Year" in 1991. It continued till 2001 and changed the system of articulating the mission of individual departments into "Goal of the Year" after setting up new Policy Planning Department. This department has issued directives regarding the formulation, prioritization, monitoring and evaluation of the 'goal oriented' annual planning. The Bank has formed Organization Restructuring Committee (ORC) in January 9, 2003 and made it responsible to overall planning process. Nevertheless, the Bank has started the corporate planning process in real sense after changing the nomenclature of 'Policy Planning Department' into 'Corporate Planning Department' in December 24, 2003 and the budget functions brought in from 'Financial Management Department' with the objective of establishing good congruence between planning and resource management. Since then the department has started its function of formulating strategic plan by collecting and analyzing environmental and financial information, and synthesizing option and consequences for organizational and program strategies. In this context, to formulate the long-term strategic plan, taking vision-mission statement into consideration, the Bank has formed a twelve-members Corporate Planning Committee (CPC) with the coordination of Corporate Planning Department in which Executive-Directors of core-functions oriented departments are included as ex-officio members of the committee.

In the corporate planning process, the Board of the Directors of the Bank, for the first time announced its "Vision Mission Statement" in January 2, 2003 as follows:

Vision "A modern, dynamic, credible and effective Central Bank".

Mission "To maintain macro-economic stability through sound and effective monetary, foreign exchange and financial sector policies".

Objectives "Formulate necessary monetary and foreign exchange policies in order to maintain the price stability and balance of payment for sustainable development of the economy and manage it; promote stability and ensure liquidity required by the banking and financial sector; develop a secure, healthy and efficient payments system; regulate, inspect, supervise and monitor the banking and financial system; and promote and develop the overall banking and financial system and enhance its public credibility".

Strategies " Develop long-term strategic plan; formulation and implementation of sound and effective monetary, foreign exchange and financial sector policies; formulation and implementation of sound, efficient and effective regulatory and supervisory system to make financial system effective; reengineer the organizational structure of the bank; formulate and implement strategic human resource planning and development; develop and implement Management Information System (MIS); automate and modernize payment and settlement system".

Procedures of Corporate Planning in Nepal Rastra Bank

Corporate Planning Department has followed the underlined procedures of formulating, implementing, monitoring and evaluating the corporate plan:

- Formation of Corporate Planning Committee
- Initial Discussion on formulating Corporate Plan by Corporate Planning Committee
- Drafting Corporate Planning
- Discussion on initial draft on Corporate Planning Committee
- Dissemination of draft Corporate Plan to concerned departments/offices
- Discussion between/among the officials of department/offices and Corporate Planning Department
- Presentation of Corporate Plan to departments/ offices through seminar/workshop
- Discussion on Consolidated Corporate Plan by Corporate Planning Committee
- Finalization of Corporate Plan by Corporate Planning Committee Submission to the Deputy Governor-Governor
- Submission to the Board of Directors for necessary approval
- Dissemination of approved Corporate Plan to concerned departments/offices
- Preparation of departmental/office-level plan
- Collection of departmental plans
- Discussion on departmental Plan by Corporate Planning Committee

- Consolidation of departmental plans
- Implementation of Corporate Plan
- Monitoring /follow-up/evaluation of the implementation
- Quarterly/Half-yearly/Annual evaluation
- Changes and modification as per the need of the bank

Organizational Change and Development: Past and Present

As explained above, the bank has begun its function according to the urgency of instant needs and the areas of operation were also limited at that period of time. The size of the Bank in inception period was small in terms of departmental arrangements and manpower structure. Very few staffs were working within the limited departmental arrangement. With the rising need of expansion, adequate attention was given to establish branches, sub-branches, sub-offices, exchange counters and depots. The expansion and downsizing the Bank in these last forty-nine springs will be deserted as follows:

Attempts for expansion of Organizational structure

In the primary days of the bank inception, the total number of the staff was 23 including Governor, chief accountant, five officers and sixteen other employees and the number reached 73 at the end of that fiscal year. With the expanding office network and organizational structure, it doubled in the next year and reached 168. Initially, the number of yearly increment of staff was more than 100 percent and the number reached 738 within one decade. It was the expansionary period due to the necessity of enlarging the monetary and financial sector. Actually, looking at the figures of annual increment of staff recruitment it seems that the Bank had adopted a need-based approach of human resource planning at this particular phase. Because, increasing number of departments, branches, sub-branches, sub-offices, exchange counters and depots were to be needed more employees to run the banking business.

At the end of the F/Y 1966/67, the total staffs numbers reached 915, whereas the special class officer was 1 and the number of 1st class, 2nd class and 3rd class officer was 10,24,73 respectively and remaining 607 were in assistant level. In F/Y 1970/71 the number crossed 1000 and jumped up to 1152 in 1971/72. In F/Y 1972/73, the total numbers reached 1695 and the employees in assistant level tremendously increased by 1548 that constituted ratio of 1:10.53 between officer and non-officer, which is the highest ratio ever recorded in the NRB history. Up to F/Y 1975/76, the total positions and working staffs was same at 1934, which means whatever the positions were to be created, those were to be fulfilled within that fiscal year. In the F/Y 1976/77, total positions were 1989, the working number was 1837, among them 175 and 1662 were in officer and assistant level that accounted 1:9.5 officer-non-officer ratio approximately. The increasing trend of manpower has become a regular phenomenon in the successive decade due to expansion in support service as well as regulatory and supervisory areas. During the F/Y 1973/74 to F/Y 1982/83, the Bank has heavily increased the mint and currency chest management. Besides, development finance especially in priority sector and banking operation was enlarged in that particular period of time. In the same fashion, internal employees welfare-related volume of works has increased by introducing different welfare facilities such as house loan, medical insurance, maintenance and repairing loan etc and contributed to increase the overall structure of manpower. In 1983/84, the total position and working force was same as 2763 and the number of officer and non-officer was 304 and 2459 and ratio was 1:8. Interestingly the number of peon alone reached 851 in F/Y1984/85, which is the highest number in the Bank's history. In the F/Y1998/99, the number of peon alone was 807, which is the second highest number in this level.

As we see the empirical data of human resource stock, these appemitik no reasonable basis in the increase and decrease staff's number. There is a big variance between the total number of positions to be created and the vacancy to be filled. The ever-highest number of positions and working number that are 3227 and 3410 recorded in 1984/85 and 1991/92 respectively. The gradual declining trend begins from F/Y2000/01 as an attempt of downsizing the organization although a big chunk was retrenched in 1993/94 due to compulsory retirement provision of minimum service period of 30 years or maximum age limit of 58 years. If we look at the rank-wise classification and composition of the manpower structure, the lowest and highest positions in special class that is 1 and 24 in F/Y1966/67 and F/Y1985/86. Similarly the highest number in 1st class reached to 50 in F/Y2000/01 and in 2nd class, it went up to 422 in F/Y2001/02, whereas the lowest number in respective classes was 9 in F/Y 1970/71 and 24 in F/Y 1966/67. In F/Y 2000/01, the total numbers of positions and working staffs was brought down to 2940 and 2402 from 3320 and 2737 and in next two successive years the positions and working force were cut down by 405 and 543. With the beginning of Financial Sector Reform Program (FSRP), the Bank has been trying to match her manpower structure in line with the objective of reengineering of the central bank itself. In this regard, the Bank has been attempting to establish healthy ratio between white-collar and blue-collar, as a result the positive outcome has started to appear by declining ratio from 1: 6 in terms of total positions in 2000/01 to 1:4.40 in terms of number of working staffs in F/Y 2003/04.

In the beginning, the Bank conducted its operations with limited organizational structure. Although, the management had attempted to establish an ideal 'Building Block" and run the entire business by focusing into the major components as departmentalization, division of work, hierarchy and coordination. In the first decade of expansionary phase, some 27 offices including branches, sub-branches, sub-ofices and depots have been established in the main centers of the kingdom in addition to Kathmandu. Initially, the number of full-fledged departments was 5 and other two divisions were in operation. Research job was to be conducted by small Economic Research unit and separate departments were established for the management of currency and banking function as per the then objective of the Bank. Inspection and Check Department, today's Internal Audit Department was established in 1956 and Administration Department (today's Human Resource Management Department) and Account Department (today's Financial Management Department) were set up in 1957. Foreign Exchange Department, the then Foreign Agency and Investment Department, established in 1958, was more active in respect of controlling foreign exchange rate as well as managing foreign exchange reserve and foreign trade transactions. In this connection, Foreign Exchange (Regulating) Act, 1962 introduced and completely enacted in all over the country in 1966. In the same manner Public Debt Department was established in 1962 in view of resource mobilization on government behalf. In that expansionary phase, focus was given to outside the valley by setting up branches, sub-branches and sub-offices. Besides, exchange counters, permanent as well as temporary depots were opened up to carry out the basic function of circulation of NC throughout the kingdom. Beginning from 1956 to 1965 as the expansionary period, the total numbers of such offices outside Kathmandu were 8 and increased to 27 including four branches, 5 sub-branches and 10 sub-offices in F/Y 1963/64 and alongside, the maximum number of exchange counters picked-up to 83 in F/Y 1967/68.

At that time interval of 1956 to 1968, focus was given to play the role even in hill areas aiming to circulation of Nepalese currency. A separate department named Banking Operation and Development (today's Banking and Financial Institutions Regulation Department) was created in 1967 for effective regulation of the banking sector. Previous Legal Unit under Administration Department converted into full-fledged department in 1968 as Legal Department. In the 2nd decade, a great deal of attempts had been made for organizational reform to shape healthy and sound structural framework. In this period, General Service Department, Budget Unit, Banking Operation Division, Agriculture Credit Department were set up. Besides, Organization and Methodology Unit under Personnel Administration Department was established with a view to regular study and research for organizational development. Bankers Training Center was established in 1970 as a milestone for developing and upgrading the human resource of the Bank as well as the other commercial banks. The 3rd and 4th decade of the Bank, attempts has been made regarding organizational reform have just confined in downgrading, upgrading and changing nomenclature of different layers of organizational arrangements. Whatever the change took place, it was said that those are mainly guided by the pervasive principle of management, which includes hierarchy, chain of command and span of control. As we see at the end of 4th decade, further departmental expansion took place in when Regulation Department was renamed as from the previous Banking Operation Department and Supervision Department were bifurcated into Bank and Non-Bank Regulation and Supervision in 2000. Policy Planning Department was set up by merging Organization and Methodology division in December 13,2001 with the objective of policy formulation regarding human resource, special study and research for organizational restructuring. Besides this, responsibility of coordination of the offices outside Kathmandu (Branch offices, nomenclature changed in October 24, 2002) is also assigned to this department. Later on, the name was changed to Corporate Planning Department and the assigned job of formulating human resource policy being transferred to Human Resource Department and budget function traditionally carrying on by Financial Management Department to Corporate Planning Department in December 15, 2003. Upgrading and downgrading of the departments such as Public debt, General Service, Legal Department and the offices outside kathmandu such as Dhangadi, Janakpur, Pokhara etc were common in the past. Besides, creating additional positions in Governor's Office based on subjective judgment of the executive felt as a regular phenomenon.

Endeavours for Downsizing

As explained earlier, organization structure is basically determined by the various factors such as fundamental legal establishments, objectives, need of time, urgency of the situation, culture, etc. Over the years, the Bank has attempted many times to downsize the organization. If we see the gradual development of organization of the Bank, the process of downsizing started from 1965 when 19 offices out of 27 was handed-over to Rastriya Banijya Bank (RBB) after coming into its existence. Altogether 12 departments excluding Governors office in Kathmandu and 11 offices in outside (4 branches-Biratnagar, Birgunj, Bhairahawa and Nepalgunj; 3 sub-branches-Janakpur, Pokhara and Dhangadi; 1 sub-offices –Ilam and 3 depots-Bhadarapur, Malangwa and Tawalihawa) have been set up in the organization structure. In F/Y1967/68, some 14 counters were closed down and sized down 66 out of total 80 counters. Closing down process of exchange counters have further sparked up after following the new regime of moneychanger in those places where counters were to be operated by the Bank and ended in 2003 by phasing out all remaining counters under Janakpur Office. Bhadrapur Office and, Ilam sub-branch merged in Biratnagar office in 2003 and 2004 respectively. In the same fashion, both bank and non-bank Regulation Departments were merged into one in November 22, 2002 and total numbers of departments including Kathmandu Banking Office, however, reached to 20. In the mean time, change in nomenclature and departmental grouping under functional classification of the departments was introduced in December 15, 2003 to ensure effective chain of command and span of management control.

On the employees' front, for the first time in 1988, out of 300 temporary staffs in assistant level, 100 were made permanent after following a process of open competition and remaining 200 retrenched out. In 1990, after restoration of multi-party democratic polity, a scheme of compulsory retirement limiting the total service period of 30 years or maximum age limit of 58 years whichever earlier, was introduced in civil service which was replicated in the Bank also. Despite laying-off of many staffs in all level, the total numbers of staffs remained unchanged due to the liberal entry policy. As a result total vacant positions filed up in different level and total positions reached 3400 in 1999. At that time, a liberal attitude was shown in recruiting junior level staffs especially drivers and peons on contract basis. As a result, the numbers of non-officers reached 807 and officers – non-officers ratio went up to 1:7.38. Taking into account the unhealthy manpower structure, employees rules of 2000, has attempted to address to downsize staffs numbers by Voluntary Retirement Scheme Under Employees' Rules providing benefits of advance pension of 10 years, upgrading assistant to officer level of 15 years service period, additional increment of time-scale etc. By this, some 101 staffs in different level have took the advantage of such provision. Following this, the Bank has announced formal Voluntary Retirement Scheme (VRS) in March 26, 2003 for the first time and being retired 371 employees. Out of this, 65 were officers and remaining 306 were non-officers. The Bank had further attempted to decompress the officer-non-officer ratio by second round VRS in March 25, 2004 and altogether 104 (51 officers and 53 officers) have left out the Bank under the scheme.

Organizational reform process actually has started after initiation of broad Financial Sector Reform Program (FSRP) by HMG. Reengineering of the central bank was crucial agenda of FSRP that included strengthening monetary, regulatory and supervisory capacity together with organizational restructuring of the bank. In this broad spectrum, the reform process has to cover the human resource management aspect. In this greater cause of NRB reengineering, the legislative reform by enunciating the new Act has facilitated the greater autonomy and assured the Bank sufficient authority in carrying out central bank's duties and responsibilities. To materialize the goals that underlie the new legislation on central banking, it is essential that the NRB should start from new paradigm in terms of enhancement of competency, capability and efficiency. The fundamental instrument of such capacity enhancement strategy is to downsize the organization manpower structure so that a healthy, smart and sound central bank could be established. To do so, organizational redesigning by grouping of functional areas and framing a new organizational chart has put into practice. In this particular front, outsourcing of support services like couriers, cleaning and gardening, implementation of VRS, departmental/office-level merger, elimination of counter operated under offices outside Kathmandu, downgrading of Dhangadi office are some of the instances.

Board of Directors and the New Role

In organizational development context, the composition and functioning of the Board of Directors plays crucial role in discharging the overall duties and responsibilities of the Bank. In the early days of NRB Act 1955, Board of Directors consisted of five members and majority of them were from the government bureaucracy. The system of containing five members in BOD remained until 1966, which was governed by the Act itself. NRB Act, 1955 was amended in 1959 for the first time and the provision of formation of BOD was being changed accordingly. 1966 onwards, the composition of BOD changed and board members were raised to seven and the sectors representing remained unchanged. However, the following three years from 1970 to 1973, there were 6 members representing the Board. Thus, the NRB Act, 2002 section 14 has clearly mentioned the provision of the Board of the Directors consisting seven members including Governor as chairman, secretary of ministry of Finance, two Deputy Governors, and three directors appointed by Government from amongst the persons renowned in the fields of economic, monetary, banking, finance and commercial laws as the supreme policy formulation body.

While describing the organizational framework of the bank, we should observe into the provisions in NRB Act of 1955 and 2002. Fundamentally, one could find vast differences between the previous and present Acts not only in terms of composition of the BOD, appointment and dismissal procedure of the governor, appointment and voting rights of Deputy Governor and the provision regarding to form a quorum to preside over the board meeting but also in objective, duties, responsibilities and accountabilities, power and autonomy. However, both Acts have promulgated the same philosophy of an autonomous body having perpetual succession. As per the provision made in the previous Act, the entire responsibility including the management of the bank and performance of all functions to be executed by the bank was lied on the BOD, the supreme policy making body and the Governor would exercise all the powers vested in the board under the supervision of the Board of Directors. The Governor could delegate his power to the Deputy Governors and other employees to carry out the functions of the Bank smoothly. Despite legal provision, previous Act was merely limited in the paper as the Governor could be dismissed anytime without presenting any reason. There was no voting right of the Deputy Governors and anybody could be appointed, even from outside the bank. Further, the Presence of Finance Secretary was compulsory to fulfill the required quorum and even to conduct the board meeting. The areas to be selected for directors were aligned to the government bureaucracy basically from the ministries. To get rid of those sorts of anomalies, the new Act has brought up a revolutionary change in terms of autonomy in a real sense by designing a structural framework of power, responsibility and accountability. Besides, exercising and delegating power by the Governor, there are several provisions in the new Act that have helped to build on an independent and autonomous Central Bank. As per the provisions made in the section 15 and 23 of the Act regarding appointment and dismissal, it is clearly mentioned that HMG shall form three members recommendation committee under the chairmanship of finance minister in which other two include one from among former governors and another from renowned intellectuals in the related fields. The committee recommends three names for the appointment and the HMG will appoint one person out of the three to the office of the governor. In the same manner, an inquiry committee under the chairmanship of retired chief justice of the Supreme Court has to be formed for the dismissal and the inquiry committee is liable to make adequate inquiry with the concerned before making any recommendations within one months. Besides, provision of Audit Committee to ensure accounting standard, resources utilization and financial discipline and Management Committee to conduct the Bank's business efficiently is major break-trough in conducting bank's operation in an effective fashion. Framing broad objectives, pronouncing core functions, legal empowerment to carry central banking functions, delegating legal power to Board of Directors to frame employees' rules and bye-laws, delineating professional code of conduct and official responsibilities of authorities to bind into the moral boundary are some other important characteristics of the new NRB Act, 2002.

Since the Board of Directors as the policy making body, the Governor could call the meeting as per the requirement but it should meet at least once in a month as per the new Act. If we look at the history in the primary days it is to be found that only few meetings were presided over. In 1956, the total numbers of meetings held was 13 and up to 2002/03 it was 34 as the highest numbers in F/Y2000/01. The least board's meeting were held on that is 6 in 1984/85 and more interestingly no board meetings were recorded in F/Y 1992/93.The above scenario has not only proved the level of independence, but has directed the Bank towards the realization of the sense of greater responsibility and accountability.

Legal Development and Transparency

Legal apparatus especially in Central Bank becomes vital which determines the degree of autonomy. As regards the precondition of autonomy legal and operational framework may be the first and top precondition of an independent central bank, whereas transparency is another prerequisite for the central bank that all concerned stakeholders including government, financial communities and general public should continuously be informed of the monetary policy program followed by the central bank. On this front the New NRB Act, 2002, section 94 has clearly made provision of compulsory announcement of annual monetary policies and programs in the beginning of each fiscal year. Side by side, strong and efficient organizational framework is also devised by new legal arrangements. In the last forty-nine years, there have been many ups and downs in the legal side of the bank. The old NRB Act, 1955 was revised six times until 1975 and reached 10th time up to demise of it. To cater wide-spreading needs, emerging globalization, competition and multi-national collaboration, NRB had to stand as autonomous Central Bank of the 21st century. For this, certain amendments and changes were not abundant. Considering this fact, a new NRB Act, 2002 was promulgated that has attempted to establish a perfect combination between authority and duties/ responsibilities and accountabilities. Furthermore, to vindicate more legal rights, to activate for enforcement and to empower to act against the breach of prudential norms and standards set by the Bank, basic amendment has been made in section 86 by NRB Ordinance, 2004. Foreign Exchange (Regulative) Act, 1958 and Public Debt Act, 1960 replaced by Foreign Exchange Regulation, 1960 and Public Debt Act, 2002 respectively. Bank And Financial Institution Orinance, 2003 (BAFIO) has come into existence as an Umbrella Act after amalgamating NIDC Act, 1960, ADB/N Act, 1967, Commercial Bank Act, 1975, Development Bank Act 1987, and Finance Company Act, 1986. This is significant milestone in respect of legal reform in financial sector of the country. NRB is always ahead to constitute a legal framework in financial sector of the country. An effort to preparing Anti-money Laundering Act, Offshore Banking Act, Assets Management Company Act, is the evidence of its firm commitment towards good governance in financial system. Debt Recovery Act, 2004 is already placed in operation.

To strengthening internal legal capacity, the Bank has formulated and implemented many rules, regulation, directives and manuals. Directives–2001,to commercial banks, Directives–2002 to development Banks and finance companies, and Directives-2003 to micro credit institutions, cooperatives and NGOs who are licensed for limited banking transaction are some of the examples. Besides, manuals relating to inspection and supervision, auction, expenditure, budget, planning, mint, currency, etc. have been issued for the disciplined and legitimate functioning of the

Bank. The first Employees Regulation was issued on April 8, 1959 for the first time and issued on new shape as Employees Rules, 1992, which has been amended seventh times in 2001. Amendment made in 1992 has got special significance from the professional development point of view such as transparent provisions regarding promotion and performance evaluation criteria, lateral entry in officer's level, fixation of service tenure of Special class and 1st class officer were the major characteristics of the new rules. The subsequent amendment in 2001 has had add further new dimension in an institutional development by imposing prohibition in recruitment of temporary staffs in contractual basis in any level. Advance pension of ten years in lump sum for retirement, debenture scheme for retirees, rewards and punishment provision, selection of excellent employees of the year and service security of employees are some important features of the seventh amendment of Employees' Rules, 2001.

Human Resource Development and Motivation

Human resource is the spirit of the organization that makes the organizational framework live and dynamic. All efforts and endeavors become meaningless unless management pays serious attention towards developing an ideal and motivated human resource stock. Someone may seek to pursue and conceptualize the process of organizational development, and build up a complete system for the organization including corporate planning with vision, mission, strategies and all types resources but it does not work without well-motivated and capable employees. Although it is very difficult to say as to what are the driving factors that could motivate the people in the organization. Prof. A. H. Maslow has propounded an evergreen model of needs hierarchy that person can drive for quality performance by satisfying all hierarchies of needs from physiological to social to esteem to self-actualization. David C. McClelland has categorized motivation for achievement, affiliation, power and competence that drives human resource to overcome challenges and obstacles in the pursuit of organizational goals. Most of the behavioral scientists have emphasized on expectancy model, as the motivation is the product of valance, expectancy and instrumentality. If money is to act as a strong motivator, then an employee must want more of it (valence), must believe that effort will be successful (expectancy), and must trust that the monetary reward will follow better performance (instrumentality). To be an effective and live organization it should have a good human resource policy and planning that could lead an organization to the path of achieving ultimate goal. It is also equally important to think that framing an effective and prudent policy regarding human resource development and motivating staffs is neither a casual business nor a ritual. It is a continuous process, which starts right from the beginning of human resources development process like recruitment, selection, placement, promotion and training. A good and enough compensation packages normally motivate people in the work. But it does not necessarily mean that monistic motivators such as a handsome salary package and other fringe benefits could always motivate people and drives towards better performance. However, the Bank has been attempting to provide a better motivators in terms of monistic and non-monistic valence; nevertheless, it is always challenging task for management to integrate these into one for securing better results in the organization.

NRB has been revising pay scale and allowances time to time to motivate staffs. Facilities like medical, house loan, vehicle and computer loan, and telephone are important that have contributed a lot to motivate people. In the social security front, pension, gratuity, provident fund, welfare fund, staffs insurance are to be considered as the valuable motivators for the staffs. In organizational development context, a clear career path, and the possibilities of status enhancement of individual plays a significant role because it has psychological and social meaning. For this, a scientific and systematic performance evaluation system and career development plan is desirable that adhere a trust-worthy working environment in the organization. Fixed remuneration practice could increase a lot of anomalies. Although, NRB is still far behind in developing a culture of incentive by developing a performance-based pay structure that provide several potentials for better employees' development and also could be advantageous for the organization.

Training and development have been becoming an integral part in the Bank. Bankers Training Center (BTC) has been established and conducted various core-function related contemporary training programs. Keeping increased environmental complexity and official responsibility in view; behavioral courses are organized to refresh the human values and to create an atmosphere of ideal organizational environment. Growing complexities and challenges in domestic and international financial markets has created both opportunities and threats for the bank in discharging legally entrusted duties and responsibilities. The Bank, therefore, has come up with the policy to equip best knowledge and international exposures. After developing a generous relationship with international and regional financial organizations, a lot of incumbents are being able to grab international exposures in the banking field. In this particular front, IMF has been including a significant contribution through organizing trainings and seminars in several relevant issues and inviting eligible candidates by which NRB has been able to develop its efficient and professional employees cadre. Likewise SEACEN, APRACA, BIS, SEANZA are other institutions which are contributing tremendously in human resource development front. Central Banks of many countries have been giving their hands of cooperation, which is really appreciable, with theirs, Federal Reserve being in the forefront. Central banks of different countries like China, Sri-lanka, Philippines, Japan, Canada, Australia, Sweden, Norway, South Korea; and Malaysia are some of the major partners to have the opportunities of exchanging international experience with organizing seminars, symposium, trainings and other interaction program for the senior officials of the Bank.

Problems and Challenges of NRB in the context of organizational Development and Corporate Planning

Nepal Rastra Bank is experiencing it greatest challenge. As a Central Bank of 21st century, the Bank has been facing various difficulties and problems; fortunately they are all domestic and internal, especially in regulation and supervision side. And it has also not encountered with external shocks that have impact to greater extent in our monetary and financial system. In fully, this weakness and inefficiency is witnessed in the functioning of the central bank and has been criticized by the different segments of the society for not properly discharging the regulatory, supervisory, and macro-economic functions. Furthermore, monetary policy is not beyond the public criticism on the ground that it could not help to vitalize and boost the economy according to the aspiration of the people. In this particular situation, NRB has to more forward and face the challenges with the dual threats of ensuring healthy and reliable financial system to the general public on one hand, and formulating appropriate monetary policy for the economic stability on the other. NRB has, therefore, to prepare for tackling any problems and uncertainties that would arise in the future by strengthening and restructuring the organizational arrangements by developing healthy and sound organizational and corporate planning culture. The burning problems and challenges can be summarized as follows:

- Human resource management and development aspect have somewhere been missing in the past where manpower is key economic resource, which eventually leads the bank to the goal. As an apex and specialized institution, strategic manpower planning and development is sine-qua-non in the context of organizational development for pursuing better performance. Without change and innovation, the Bank could not march forward to the right path of achieving organizational goal. Problem in manpower structure in terms of size, ratio in different levels and distribution are acute problems, which have been existed in the bank since long. Least priority for organizational strength, capability and efficiency, unsound and haphazard organizational planning and short-term considerations at the cost of long-term vision and mission have been becoming common characteristics of the Bank. Mismatches between job requirement and competencies of incumbents, intense shortage of manpower in core areas, inappropriate distribution of manpower in auxiliary services, unhealthy proportion between officers and non-officers, lack of study of work process, volume and elements are some of the chronic problems in human resource side. The HRM process right from the planning, including recruitment, selection, training and development, socialization, performance evaluation, promotions, separations etc could not get much attention by the Bank. That is why the Bank has failed to attract and retain the talented and professional individual. The

Bank has still to prepare for successor planning to run the bank in an effective and efficient manner in future.

- An environment of creation and realization of human relation and behavior are always important in the process of organizational development. Motivators, monistic such as compensation as well as non-monistic like evaluation, career development and recognition have been absent. Inconsistent compensation structure in different levels within the bank, lack of attractive salary compared to other public enterprises and timely review and revision in relation with price index are constant problems. Many undesirable happenings relating to compensation management have been seen and recorded simply because of lacking proper application of rewards and punishment system in the Bank.
- A fair practice of delegation of responsibility and authority has always been missing since the establishment of the Bank. The chain of command in the hierarchy and the span of control is not properly established; that is why there is lack of good reporting path and coordination among the layers including senior management. Despite having a great deal of resources, the Bank lacks proper infrastructure and sufficient logistics to carry out central banking business in an effective and efficient manner. Dispersed office location, dilapidated and old building, unorganized departmental layout, odd electrification and wiring, unmanageable accumulation of physical assets etc are common problems which have directly been hindering the modernization process of the bank.
- In the last forty-nine years, Nepal Rastra Bank has been crawling with the difficult path of developing and promoting sound, healthy trust-worthy financial system in the country. Whatever the Bank did, it was not in planned and systematic manner rather the instant need and urgency has determined the direction of functional performance. Lack of corporate planning culture always remained as felt pitfall during the course of four and half decade. When formulation of annual plan started, it was just incomplete and nonsystematic. NRB has now began the culture of corporate plan by announcing the Vision Mission Statement however, it has still to cross many uphill to realize it into practice by implementing the plans and programs for better output.
- Prioritization of core functions, which are basis for realizing the vision and mission, ever lagged behind from the attention of the concerned authority. Priority has given to auxiliary services and bulk of resources has been invested in such areas. The Bank is still handling government transaction; whereas other central bank of developed countries have outsourced even supervisory function from the central bank's preview. Instead of regulating micro finance, it is still stands in functional area and handling long-term project is becoming regular business of the Bank.
- Overall performance of the financial system is deteriorating due to the heavy amount of non-performing assets in the banking sector. About 30 percent of the total credit has been converted into bad loans, which accounted nearly 40 billion of Rs in fiscal year 2003/04 and comes around 8 percent of GDP. It implies that every citizen has to shoulder Rs. 1200/- of debt on his or her head. Loan under black listing has reached 17 billion together with interest of Rs. 8 billion. Furthermore, two giant commercial banks of government ownership that cover almost 50 percent of total deposits in the banking sector, have been going under serious threats of existence with having negative net worth of more than 32 billion and poses major risk for overall financial stability. This kind of alarming situation in the banking sector has threatened the performance and integrity of the central bank.
- The initiatives taken by the government with regards to financial sector reform in the country with collaboration of international financial agencies including IMF and World Bank are not satisfactory enough. The broad FSRP is still far away to achieve the desired goal of reducing non performing assets and improving financial performance of RBB and NBL. In spite of heavy investment in international consultants and their reforms initiatives, positive results are not found that could prove the rationality of huge expenditure made by the government.
- Despite issuing directives from the NRB, there are many bottlenecks in complying with the

prudential norms and standards by the commercial banks and financial institutions. There are a lot of discrepancies in loan classification and loan loss provisioning, rescheduling, auditing and furnishing disclosures and are not complying to the directives, which have frequently been misleading the true and fair status of banks and other financial institutions. The Bank is still far behind in applying core principles with respect to risk management in line with the Basel recommendations except capital adequacy. It is a great challenge for the Bank to meet its commitment of upgrading the financial discipline in the financial sector.

- The predominance of the informal financial sector that is almost 75 percent of the Nepalese rural financial structure is another challenge for the central Bank. The process of broadening the formal financial system is hindered due to the various reasons including economic, social and political fairly. After adopting liberalized policy in financial sector, many foreign joint venture and private sector banks and finance companies have been established in the country, but access of banking services in the rural sector is still a distant dream.
- There is a grave deficiency in legal part with respect to handling central banking apparatus. Sometimes, judicial decisions and political interventions do affect the central bank's policy decisions in the issues belated to attain the broader objective of financial stability and commanding public trust. The newly Banks and Financial Institutions Ordinance, 2004 (BAFIO) is being criticized by the concerned stakeholders. NRB itself is not able to exercise its autonomy delineated in the Act. A large number of cooperatives are beyond the regulatory framework of the central bank that has been mobilizing a big chunk of deposits from the general public.
- In the five decades of central bank's existence, country is still facing the dual currency problem especially in hill areas and parallel foreign exchange and credit market in most of the parts of the Terai region. It may partially because of absence of banking network but also due to the lack of public confidence in Nepali rupees permanently pegged with Indian currency might be another reason that has helped to promote the usage of Indian currency openly.
- The role of central bank becomes quite paramount in a sound political and social environment. Today's discouraging domestic political environment due to the insurgency has affected the adverse impact in the overall economic situation of the country. The banks and financial institutions are not functioning in proper and prudential manner. Banking sector is not being able to capitalize the investments and savings opportunities. All economic entities are becoming nearly paralyzed and destabilized. The regular business activities have been disturbed including the Central Bank of the country. Hence, one cannot expect the better usage of the monetary policy instruments useful in such unhealthy and unpredictable environment.

Suggestions and Recommendations

NRB has set the vision to be modern, dynamic and credible. Maintaining macro-economic stability through ensuring sound and effective monetary, foreign exchange and financial sector policies is the mission of the Bank. To create a conducive environment and to build up public confidence in the financial sector is the prime concern at this point of time. NRB would not be able to prove its importance by rather discharging the duties and responsibilities entrusted by the new Act. For this, change and development should be ongoing motifs so that the Bank could march in an equal footing with other central banks of the region to cope with the challenges emerging in international financial world. Asian crisis has learned us much about the sensitivity of banking practices and urgency of timely policy intervention. A great deal of attempts has been made in the past, however they are not adequate and complete. Continued vigilance and farsightedness, ongoing development approach and strong monetary, regulatory and supervisory role are always desirable to achieve the fundamental objectives. Some suggestions are listed below:

- The utmost priority of the bank is to concentrate in core functional areas. Resources should be utilized to perform fundamental core functions; which are monetary policy, foreign exchange management and regulatory and supervisory role of the bank. For this, the central bank should revamp its overall organizational and manpower structure by adopting the due process of systematic and scientific study of work volume and manpower requirement so that the Bank could be able to discharge its duties and responsibilities as delineated in the Act.

- To address today's burning problem of unwanted size of the bank in terms organizational arrangement and large size of employees, downsizing its present structure by outsourcing all functions under support service categories and prioritizing the core functional areas are inevitable. Besides, departmental arrangement by downgrading or upgrading should be placed, taking the level of use of information technology into consideration, accordingly.
- The proportionate distribution of manpower in accordance with the functional classification of the activities is urgent need to promote a sound working culture in the organization. The Bank should immediately initiate to bring down existing officer-non officer ratio at least to 1:3 that will help to mobilizing all kinds of resources economically and making bank operationally cost effective for the betterment of the institution.
- The overall performance of the central bank depends on motivated and committed work force. Human resource in real sense becomes resource when it dedicates his or her efforts wholeheartedly to the institutions and use professional expertise for the betterment of the institution. The Bank needs to develop a culture of 'reward for work and work for reward' that leads organization eventually not only to a new horizon of employees' outlook but also enhanced the level of overall productivity. To attract and retain competent talent in the bank is important challenge in the present situation. The Bank, therefore, should formulate progressive human resource policy enabling to address these severe problems. At the same time, timely review in existing compensation package is most for the better performance.
- The Bank has recently initiated the culture of systematic and formal corporate planning in recent. To begin with, Vision Mission Statement is already announced with objectives and strategies. To realize this, NRB should frame and continue a realistic long-term strategic plan by focusing its whole attention to the core functions.
- Proper physical layout and necessary infrastructure is essential element to conduct the business of the Bank efficiently and effectively. Productivity and efficiency lies on systematic arrangement and distribution of resources along with the human resource. The modern Central Bank cannot run under the old and dilapidated building, where the installment and arrangement of logistics including proper IT networking is not possible in such poor physical infrastructure. It is, therefore, a modern and new building should be constructed immediately so that a high-quality working atmosphere could be created for the better performance of the Bank.
- Without financial stability, overall macro economic stability could not be achieved. The objective of macro economic stability as envisaged by the preamble of the new Act is only achieved if the bank strengthens its regulatory and supervisory capability. Applying and ensuring international banking prudential, core principles and best practices adopted by the Bank for International Settlement (BIS), Basel would be the basis for nurturing a sound culture in financial system. The high NPA, low financial performance, unhealthy corporate governance and weak management characterize the present banking sector. NRB as a regulator and supervisor, should come up with sufficient instructions and regulations to overcome these existing problems in the banking and financial system that could prove an environment of feeling of responsibility and accountability by the Bank to the depositors and concerned stakeholders. It would also foster the corporate culture in the financial sector so that possible disaster could timely be checked up. Furthermore, merely issuing new regulation and conducting periodical supervision could not serve the basic purpose until and unless enforcement becomes obligatory or mandatory. Therefore, the Bank needs to review the legal provision of enforcement of policy decisions and directives.
- Monetary instruments of the central bank should be used to maintain monetary stability by not forbidding development goal. Increasing liquidity and decreasing deposits rates does not signal the adequate exercise of monetary measures although

it is temporary phenomena due to the unusual situation of insurgency. However, the Bank should always come in front to ensure to general public that adequate policy interventions are put in place to create an environment of reliable financial system in the country.

- Foreign exchange policy should be consistent with open market policy and exchange rate determination should be based on purely market mechanism. NRB should initiate to make adequate legal provision for promoting derivative markets and managing associated risk in this regard. Besides, foreign exchange reserve management is the core issue for the bank paying consideration into increasing volatility in international money market especially in major currency markets. It is advisable to manage accumulated foreign exchange reserve in higher rate of return at minimum risk in accordance with the norms of central bank.
- A rigorous attempt should be made in respect of strengthening the existing payment system considering the linkage between banking and capital market. Without adopting CDS and linking it by modern IT system, money and capital market could not expand. Therefore, it is going to be late to develop a sound payment system that could be RTGS (Real Time Gross Settlement) where the Bank eventually has to select as the future path to go.
- As a banker of the government, NRB has been handling the government's transaction paying a high rate of commission to operating commercial banks. Increasing trend of budget size of HMG in each fiscal year obviously increases total commission to pay to transacting government owned commercial banks, which is neither feasible nor sustainable in long-term rather it is increasing financial burden for the Bank. Hence, the Bank should undertake a policy option to handover the government transaction to those interested private sector banks who deliver this service without any commission or free of cost so that the Bank could reduce her cost substantially.

Conclusion

The central bank of 21st century, as a monetary authority of the country, cannot simply confining within the domain of domestic monetary affairs for the purpose of formulating and implementing an effective monetary policy. Expanding internationalization of the domestic economy and the emerging issues in financial world has created several new challenges in different dimensions of economic development. Increasing share and input of banking and financial services in the total GDP has not only proved its significance but also attract the attention of policy makers towards framing the prudent financial policies and monetary measures. It is almost impossible to ensure a stable and conducive monetary and financial environment without developing a capability of anticipation and analysis of future environments and critical issues such as economic, political, demographic, technological, etc. Nepal Rastra Bank as an apex institution and the leader of the whole almost financial system should play an exemplary role to establish a culture of continuous change and development within the organization so that it could overcome the potential challenges and provide unduly to other organizations in public and private sector. Organization as a physical structure does not carry any meaning unless it has equipped with skilled and professional human resource. An ideal and focused organization structure with healthy combination of manpower mix is always desirable in the organization. Discipline, commitment and personal integrity of cadres are highly valued for a successful organization, which basically comes from the individual perception and behavior. It is always expected an environment of rewards and punishment, performance evaluation, clear career path from all layers of the organization especially from the top leader and senior management. Successor planning and training management are such elements, which are correlated with the human resource planning and development aspect. Such arrangement only could accelerate the pace of change, innovation in the process of organizational development and planning. Apart from this, a conducive working environment with perfect physical layout, adequate infrastructure in terms of computer-based information technology and mechanization, attractive compensation packages and motivated staffs and appropriate policy interventions are such variables that could be acquainted to realize the pragmatic approach of organization development. Corporate planning culture becomes imperative attain the goals in planned and systematic manner. Inclusive and participatory approach of policy formulation and implementation can be considered an effective device to translate the organizational objectives and strategies into real practice. In this regard, past attempts, experiences, trends, historical facts and data in the context of organizational development and corporate planning made by the Bank indicate the path for accomplishing the fundamental objectives as enshrined in NRB Act, 2002 - achieving the newly announced vision and mission of the Bank. However, it has to move further with all endeavours to cope the future opportunities. Keeping all these facts into consideration, the NRB, as a central Bank of new millennium, celebrating her 50 glorious Golden Jubilee years should come up with the firm determination and commitment of pursuing and preserving a sound organizational culture that would eventually lead the organization to a new horizon of change and modernization.

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NRB Reengineering

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Introduction

The world witnessed the expansionary role of government until the 1970s. Probably, the dramatic events of World War I, the Great Depression of 1930s, and the destruction caused by World War II, among others, led to a believe that the State role is important for the national development. State domination in all sectors of the economy was thought a good model for development at that time. It was believed that the surplus generated in the economy would eventually trickle down to other sectors of the economy. Although the concept of Welfare State dominated the world until the 1970s, many problems emerged from this state dominated economy. The failure of trickle down theory, increased costs of the state dominated economy, the failure of centrally planned economies, increased public debt, poor service, and the failure to provide service as expected by the citizens resulted the shift in the role of government in the 1980s. The OECD (1995) argued that the state dominated economy has become inadequate because: unchanged governance structures and classic responses of 'more of the same' are inadequate for maximizing economic performance and ensuring social cohesion; highly centralized, rule-bound and inflexible organizations emphasize process rather than results impeding good performance; extensive and unwieldy government regulations restrict the flexibility needed in an increasingly competitive international markets; large government debts and fiscal imbalances of the welfare regime warrant governments to be more cost-effective in the allocation and use of resources; and the demographic changes, economic and social developments enabled citizens to ask for a greater say in what governments do and how they do it. In short, the government remained weak to satisfy the emerging needs of the general public.

The private sector saw a drastic change in their business environment due to globalization, commercialization, and development in the communications and information technology. Competition, quality service, costs effectiveness, value for money, customer satisfaction, etc., became important ingredients for the success of any business organization. Organizations that could not cope with this global shift started disappearing from the global market. This new wave of change pressured the private sector organizations to find out innovative ways of doing business. They were required to go out of the box to find out solutions to problems created by the factors such as competition, globalization, commercialization and increased demand from customers. After 1980s, various new techniques, such as, Total Quality Management (TQM) (Deming, 1982), Balanced Score Card (Kaplan and Norton, 1992) New Public Management (NPM) (Hood, 1991) Business Process

Reengineering (BPR) (Hammer and Champy, (1993), Organizational Learning (March and Argyris, 1977), Benchmarking (Xeros, 1979) were invented for doing business in a better way than before. Theories for these new inventions came from economics, such as public choice theory, institutional economics and from the managerial practices of best-run companies.

The term 'Business Process Reengineering' (BEP) became popular since the 1990s. It was thought to be a panacea for all problems faced by the organizations, such as those of system inefficiency, low productivity, high costs, global competition, and low motivation of employees, etc. It has been seen as a radical departure from the traditional management, i.e., 'fixes' of the past to a solution of organizational problems through 'starting over' from the scratches. This 'business process reengineering' is often referred to as 'reengineering' in short. Although the origin of reengineering came from the private sector, its importance is also realized in the public sector. Various nomenclatures were used, such as Civil Service Reform Program (CSRP), Public Sector Reform Program (PSRP), Structural Adjustment Program (SAP), and Financial Sector Reform Program (FSRP) - all meant to improve the performance of public sector organizations. Now the word 'reengineering' is used to make the public sector organizations efficient, effective, and cost – effective. The Nepal Rastra Bank (NRB) has also used the term 'reengineering', as a reform measure to reinvent the organizational systems.

The basic objectives of this paper are to explore the reengineering activities implemented by NRB, make an analytical assessment as to the success of reengineering program and suggest recommendations for future course of actions. In an effort to achieving this broad objective, this paper highlights on the theoretical aspects of reengineering, makes an assessment of the reengineering (reform) programs implemented by NRB and suggests recommendations for future reform. The paper is divided into three parts. The first part deals with the literature review on reengineering, its objectives, process, problems and suggested measures to make it successful. This literature search shall become a benchmark to evaluate the achievements made by NRB in its reengineering process. Part Two explains the reengineering programs implemented by NRB. The first phase and second phase of reengineering program implemented under the support from the World Bank and other donor allies is discussed. The achievements made from this reengineering project are also elaborated. Part three makes an independent assessment of the results achieved from the reengineering program and suggests recommendations for turning the Nepal Rastra Bank, a dynamic institution, competent and efficient to perform its roles in the 21st century.

PART ONE

This section discusses the theoretical aspects of reengineering. It includes the definition of reengineering, its objectives, processes, and success and failure factors of reengineering.

Definition of Reengineering

The origin of Business Process Reengineering (BPR) can be traced in the publications by Hammer (1990) and Davenport and Short (1990). Companies, such as Ford Motor Co. and Wal-Mart have claimed substantial benefits from implementing the fundamental concepts of BPR. According to Hammer and Champy (1993) reengineering means 'tossing aside old systems and starting over. It involves going back to the beginning and inventing a better way of doing work'. Reengineering is 'the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical, contemporary measures of performances'. These authors postulated that reengineering could achieve incredible 'quantum leaps' in process improvement. Hammer (1990) puts it more succinctly: "Reengineering is rethinking work". It can be argued that it is a widely used approach to the management of change for yielding potential benefits such as increased productivity through reduced process time and cost, improved quality, and greater customer and employees satisfaction.

It reveals that reengineering attempt to bring 'radical change fast' to business processes. It is to transform the existing business environment to attain desired results. It is often used for an organizational change characterized by dramatic process transformation that demonstrates breakthrough to achieve the desired results. Reengineering means something achieving beyond the imagination. It is not meant for 'quick hits' and 'incremental reforms', but it meant for dramatic change and significant improvements in terms of results.

Objectives of Reengineering

The ultimate objective of BPR is to improve performance and achieve results. Results for any organization could be saving costs, improving systems and processes, achieving efficiency and effectiveness, and employees' satisfaction. Reengineering- a change management program, aims at bringing substantial changes within organizational processes, structures, culture, and politics and power. Organizational process is like a black box that effects a transformation, taking in certain inputs and turning them into outputs of greater value. The structural change could include changes in organizational functions, coordination and control within departments, the decision systems, horizontal and vertical relationships and human resource management. The cultural change means adjustments in feelings, values, beliefs and human behavior that direct the action of an employee towards organization. Changes in organizational politics and power refer to distribution of power within the organization to manage the organizational issues.

Why Reengineering ?

In the last two decades there have been substantial changes in the global business environment. Some important factors contributing to this massive change in the global business market are: customers needs and perception; changes in technology and communications system; cut-throat competition and multiple choices for customers; concern for quality of product and value for money; and changes in government policies, economic trends, and demands from stakeholders. To cope with these changes need reengineering. These principles apply to public sector organizations as well.

The public sector organizations are also influenced by external and internal environmental factors. The external factors could be global competition, government policies, national and international politics and environmental cultures. The internal factors could be: modification in the organizational objectives, strategy, structure and systems, organizational workforce (age, education, ethical background, sex), introduction of new equipment, changes in employee's attitude (absenteeism, job dissatisfaction, low morale), and in the functions, activities and product, etc. All these external and internal factors demand change within the organization. Meeting the employees' values and expectations by amending rules and regulations, improving technology or automating its business activities, improving efficiency by changing systems and processes, reducing costs by downsizing, contracting out services, eliminating non-core functions, and making organization more focused towards its core functions are some of the activities exerted by the environmental factors.

Therefore, organizations need to redefine their strategic focus to attain the most from limited resources in this global market. Reengineering is a means towards that end. It is not meant to be a separate activity but to be a synonymous activity with other reform programs implemented in the organization. It is a powerful tool for organizational improvements provided it is logically developed and implemented.

Process of Reengineering

Reengineering is not a free-type exercise. It should follow a systematic process in order to achieve the desired results. There are various models suggested for initiating reengineering. For our understanding, the following six steps BPR model (Table 1) is discussed.

Preparation

Whether there is a true need for reengineering? Whether an incremental change process would be appropriate for a given problem? Is this problem could be solved by other improvement models such as TQM or NPM? First, it is important to decide that the reengineering is the best option to solve the given problem.

Once a decision is made to use the reengineering process, then the objectives of reengineering must be specified. Goals and targets (such as that downsizing, merger, restructuring, training, wages and benefits, eliminating duplications, etc.) are determined and risks measured. Scope of reengineering is defined. Executives are required to understand the obstacles or barriers (such as costs, time, skills) that could restrain the reengineering process. This phase could also be stated as 'understanding' or 'energizing', because the main objective of phase one is to recognize the need for change and determine that BPR is the best intervention to pursue with. This is the planning phase and activities such as setting vision, objectives, project plan, performance indicators, information system, reporting mechanisms are established.

Table 1

Reenginering Process

Stage	Activities
Preparation	• Recognize the need for reengineering process • Clarify vision and objectives • Define scope/project document • Select project team • Establish reporting mechanisms
Assessment	• Analyze 'as-is' environment • Gather data, analyze in terms of cost, value and effectiveness • Define problematic areas and identify areas for improvement, and establish benchmark of future improvements. • Document planned change
Solution	• Identify radically different intervention strategies • Establish benchmarks for improvements • Identify breakthrough opportunities • Invent new processes and procedures • Provide visualization as to how organization functions in a redesigned organization • Propose radical approaches after benchmarking with other best fun organizations
Implementation	• Share vision of change • Communicate to stakeholders • Organize meetings, seminars and discuss radical approaches with senior management • Get approval and implement
Evaluation and Feedback	• Measure performance objectives against targets established • Redesign and modify, as necessary • Make amendments/corrections • Submit, get approval and implement

Assessment

The main aim of this stage is to identify the root problems and get detailed understanding of the organizational environment before suggesting possible course of action. This is to analyze the "as-is" environment of the organization. The project team is required to assess the existing situation, collect data, test the data and decide the possible course of actions. In short, this step would include the identification of problems, its causes, major intervention areas, possible remedies, time framework for completing expected outputs for each activity suggested - all included in a report. This report must be a solid document, which should be reviewed by the top executives and other stakeholders.

Solution

The main goal of this phase is to document breakthrough opportunities and design new ways of doing work that will transform the work environment and show substantial gain in costs, value and efficiency. Words such as benchmarking, inventing, and formulating solutions could be used to describe this phase of reengineering. The reengineering team should move forward from the 'as-is situation' by uncovering bottlenecks and preparing measures for improvements. One way of suggesting breakthrough opportunities is through benchmarking the similar situation with other best-run organizations. It is important to visualize how organization looks like after implementing the proposed recommendations.

Implementation

The main objective of this phase is to seek approval from the concerned authorities and implement the proposed change variables. It would be part of the reengineering team to share their recommendations to the senior executives, and get their approval for implementation. It is the prime responsibility of the reengineering team to convince the management of that organization that proposed model of change is good and will bring radical improvements to the existing systems and procedures. Consultants should hold meetings, run seminars and conferences on the proposed reengineering program to ensure that the proposed changes are appropriate for the organization. Once the proposed change program is approved, it should be implemented. Implementation could be in a small scale or introduced as a pilot project. This allows fine-tuning of the proposed change and a realistic estimation of the organizational change, benefits and resource required.

Evaluation and Feedback

The final phase of reengineering process involves evaluating the success of reengineering efforts against the objectives established at stage one. Evaluation is important to understand whether the objectives set forth have been accomplished; whether there is a need to make corrections and amendments to the proposed plans and programs; whether it is cost-effective and what further actions should be taken to make the reengineering efforts more successful. Feedback is important to provide information to the related officials and secure sustainability of the reengineering programs.

The reengineering process explained above is one way of implementing BPR successfully. The motivation for making change, ownership of reengineering, top management support to the reform program, transformational leadership and a clear direction and vision for change are prerequisites for implementing reengineering program.

Success and Failure Factors of Reengineering

Although reengineering is thought a cure for many diseases in the organizations, the truth is that not all reengineering projects become successful. For a reengineering project to be successful, the top management should ensure that the success factors are built-in in the organizational system. These success factors could be grouped into four main dimensions – (a) change management, (b) management competency and support, (c) organizational structure, (d) project planning and management, including information technology infrastructure (Table Two).

Change Management

Many authors have argued that reengineering program becomes successful if the organizational culture and top management encourage changes in the organization. Change management includes all human, social and cultural factors needed to facilitate the implementation of BPR. Positive attitude of the employees towards reengineering program, acceptance of new ideas and structures, a learning culture in the organization, acceptance of some degree of mistakes and the preparation of contingency plans to deal with resistance to change are some important factors for reengineering program to be successful. To make an organization receptive to change requires a satisfactory reward mechanism, effective communication, empowerment and human involvement, training and education, trust, teamwork, cooperation and coordination, flexibility, and motivation of employees. Promoting innovation, people-focused management, reward system based on merit, an open and healthy environment, transparency in information, etc. are some practices used by management to promote organizational culture that create an open environment for stimulating change in the organization.

Management Competency and Support

The success of reengineering program depends upon the championship of management team to manage such a project. Sound management systems and procedures, top management support and commitment, leadership and management of risks are some important points for the success of reengineering programs (Al-Mashari and Zairi, 1999).

Leaders translate the creative thinking and understanding into a clear vision and set the path towards that direction. Leaders build vision, and communicate it to wide range of employees and create commitment for its effective implementation. It is often argued that change process must begin from the top, and should escalate down through an integrative mechanism to all levels of management. Sound organizational systems and processes help to make it transparent in the organization. To deal with resistance to change, the top management support is vital. Barriers may arise from the stakeholders. The top leaders and the project team must involve themselves in persuading those stakeholders who are against the reengineering program.

Management of risks is another important managerial competence required for the success of reengineering program. Reengineering meant a drastic move away from the existing systems and procedures. Therefore, risks of failure, risks of resistance from all stakeholders, blame for non-achieving results, non-acceptance of change by the employees, and planned delay in implementing change are some factors creating risks. Assessing the degree of risks and preparing contingency plans are important dimensions for the success of any reengineering program.

Structural Factors

A clear structural alignment needs to be created so that it supports the engineering activities. Among the important elements are: defining duties and responsibilities of all departments and units, establishing cross-functional teams, encouraging innovation and risk-taking behavior and ensuring flexibility so that the structural mechanism is adaptive to change. Human resources and the cross functional teams should be skillful competent, credible, creative and skilled to handle the unforeseen challenges that emerge in an uncertain environment of change.

Factors Associated with Project Management

The success of reengineering program is largely dependent upon the effectiveness of the project management team. The integration of the reengineering strategy with the corporate strategy, planning and programming of project activities, developing project timetable and performance indicators, project management techniques, adequate resources, effective use of external and internal consultants, integration of reengineering activities with other regular reform activities are important elements for the effective implementation of reengineering programs.

It is important that action plan should be prepared with deadlines to be completed. Performance measures for each activity need to be established. If the reengineering program is under the aegis of donor agencies, there is a need to define the roles and responsibilities of donor agencies. It is often the case that external consultants are hired. Their service is required because they bring new knowledge and specialized skills, neutrality and impartiality where local consultants could be biased, and tactful evaluation and judgment of situation based on their working experience in a similar situation. The recipient country should make proper assessment as to the service required by a reengineering project. A well-designed institutional mechanism to implement the project is a backbone for the success of reengineering project.

The success factors explained above are critical for any reengineering program to be successful. It often happens that the management fails to give equal importance to these factors, and as a result, many of the reengineering programs fail. The following are some factors that contribute to the failure of reengineering programs.

Reengineering Failure Factors

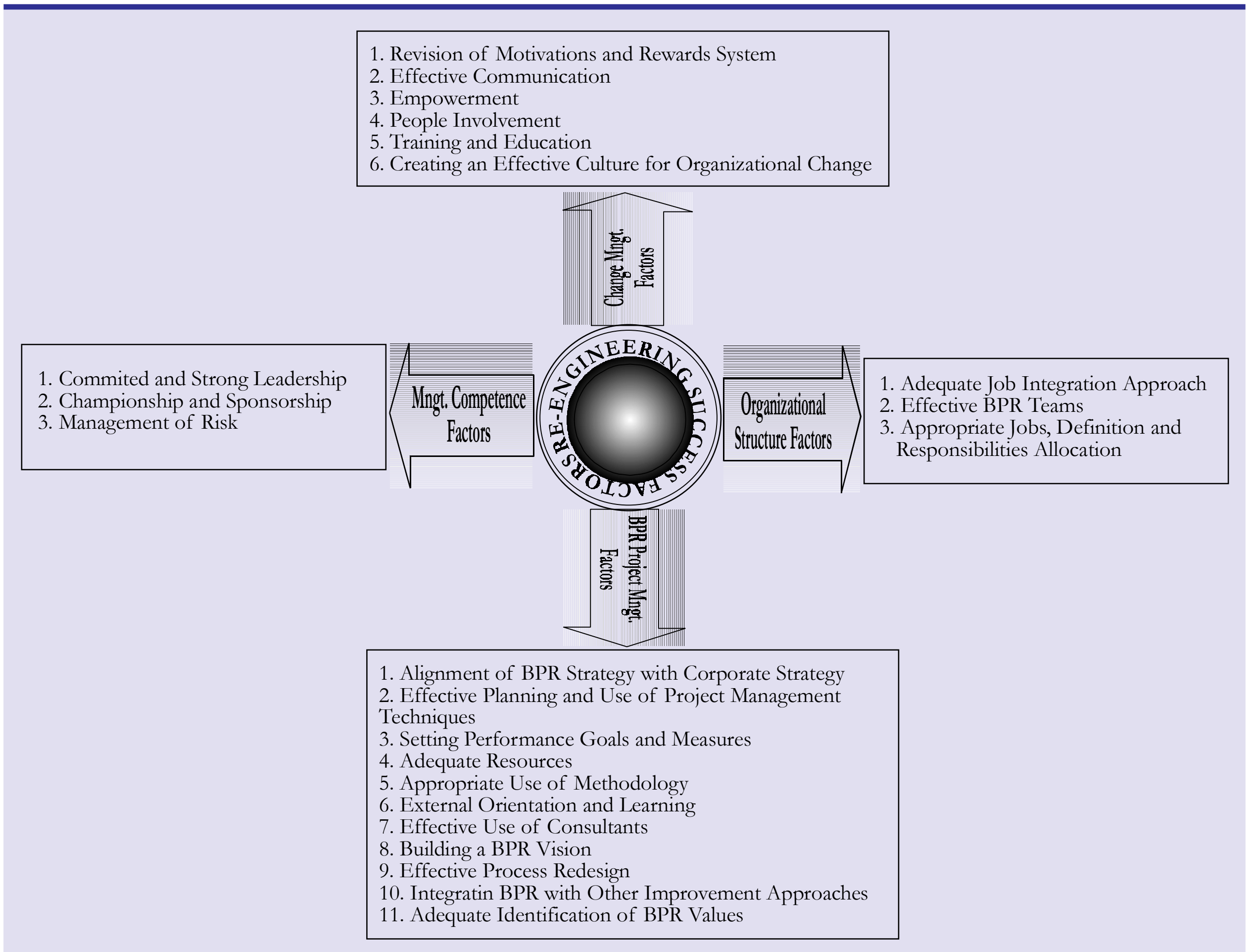
Reengineering failure factors can also be attributed to (a) change management (b) management competency and support (c) organizational structure, and (d) project management (Table three). The points in brief are explained below:

Change of Management Systems and Culture

Organizational resistance due to fear of being unsuccessful, lack of optimism, skepticism about the results of the reengineering program, loss of jobs, lack of innovative behavior and preference to status quo, and the fear of loss of control and power are some factors creating resistance to any reengineering program. It happens that the proposed change could be a win situation for some employees, and a loss situation to someone else. Therefore, those who are affected negatively by the reengineering program pose threats to any change process in the organization. Another important factor of failure is the lack of organizational readiness for change. Particularly with

Table 2

Reengineering Success Factors



the public sector organization, where donors play an important catalyst to change process, the national counterparts keep themselves isolated from the change process as they are not ready to accept change. Ownership of reengineering program is found lacking. In many cases, management does not feel the need for change, and lacks skills and determination for initiating radical change. Lack of understanding by the external consultants about the local culture, working pattern and practices, and organizational politics often provide setback to the project because employees in the organization may not cooperate with the project team.

Management Support

It is often found that lack of top management commitment and support, loss of interest by champions involved in the management of project, transfer of key people critical to the success of a project, inability of the top leader to deal with unforeseen situation and inflexibility or delays in taking corrective measures are some elements resulting to the failure of a project.

Organizational Factors

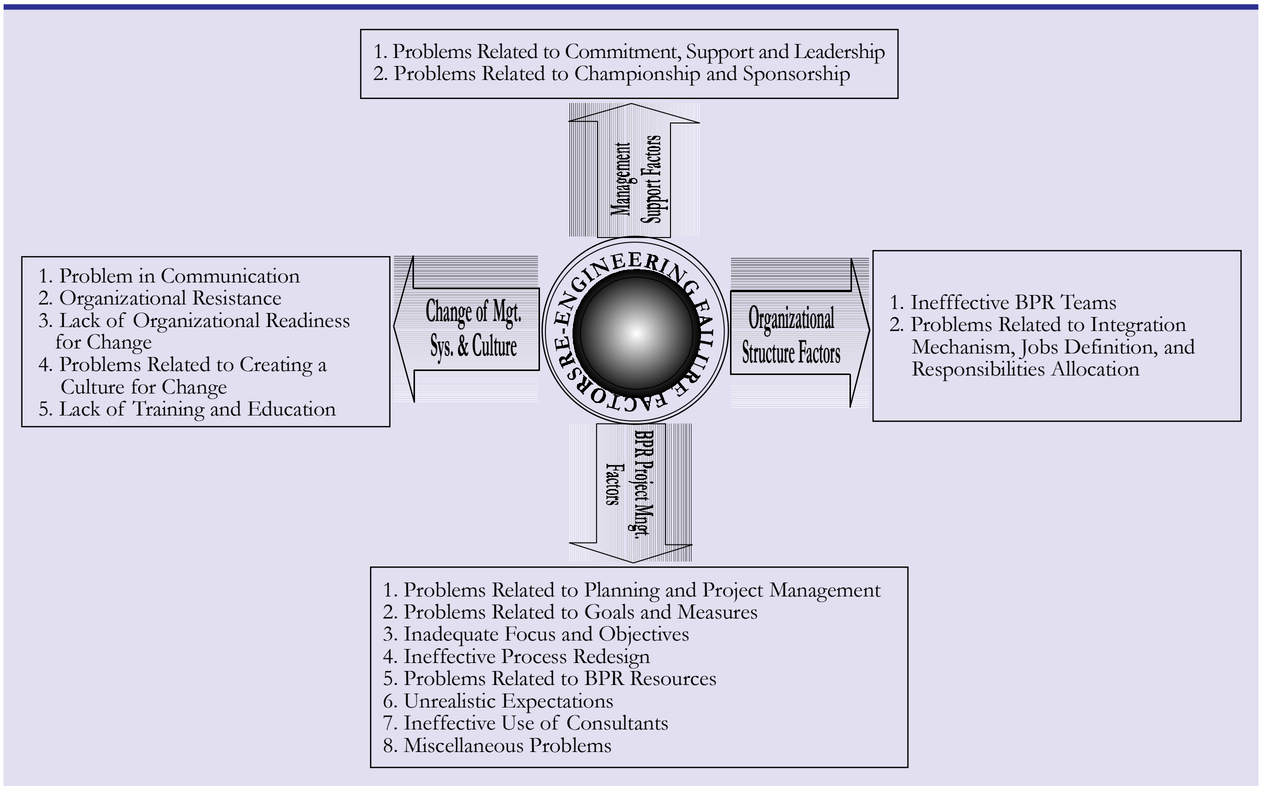
Wrong composition of project management team, lack of training and team spirit, centralized decision-making authority, rigidity, cumbersome working system and procedures, unclear roles and responsibilities are some important structural factors responsible for the failure of a reengineering program.

Project Management

It is often the case that reengineering project fails to capture the problems and its solutions, often making the reengineering program a routine activity to satisfy the donor agencies. Another problem arises

Table 3

Reengineering Falure Factors



when the identified intervention strategy may no longer be useful because of the development that might have taken place after the project has been prepared. Therefore, many of the agendas of change, which was thought critical becomes non-important or irrelevant at the time of project implementation. Infrastructure (office space, resources) required to support the reengineering project is also very critical.

The Part One has described the theoretical aspects of reengineering. It explained that reengineering means a dramatic improvement and radical change in the organization. The need for reengineering in the private sector emerged due to globalization and internationalization of markets, competition, development in information technology, and the need for them to excel in this competitive world. Reengineering emerged as a reform model in the public sector organizations. Reengineering program must be planned carefully. It should follow a systematic process in order to achieve the best results from it. Defaults in proper sequencing and planning could make reengineering program a futile exercise. Organizations should ensure that the success factors are taken into consideration before implementing the reengineering program. Similarly, the champion of the reengineering program should acknowledge factors that may kill the most important reengineering program. Analyzing all these points is crucial for the success of reengineering activity in any organization.

PART TWO

This section describes the reengineering efforts undertaken by NRB. First, this paper explains the reasons for implementing the reengineering program in NRB. Then, efforts have been made to explain the reengineering activities initiated and implemented by NRB. In explaining the reengineering events, activities are grouped into five major headings. They are: (a) Improvement Initiatives by NRB prior to 2000 (b) NRB Reengineering Committee and its achievements (c) the government initiatives to strengthen the financial sector reform program including NRB (d) First Phase of Reengineering, and (e) Second Phase of Reengineering.

Why Reengineering at NRB?

There are six reasons that call for implementing reengineering program in NRB. *First one is the growing complexity in the financial system.* The open and liberal policy adopted by the government since the late 1980s has created an environment for the growth of private sector in the country. As a result, financial sector blossomed in the last two decades. As at October, 2004, the financial system is composed of 17 commercial banks, 25 development banks, 58 finance companies, 44 non-governmental micro credit institutions, 22 non-governmental cooperative societies authorized to do limited banking activities. All these institutions are under the regulatory framework of NRB. Beside these institutions, the financial system is composed of 117 postal banks, 15 insurance companies, Employee Provident Fund, Citizen Investment Trust, Deposit Insurance and Credit Guarantee Corporation, Security Board, and Nepal Stock Exchange.

The rapid proliferation of financial players in the economy, globalization and internationalization of financial markets, cross-boarder competitions and Nepal's membership to World Trade Organization (WTO), have created the financial system more complex and competitive than before. Similarly, the deteriorating financial health of the banking sector, lack of accountability and transparency, poor governance, the domination by the government in the banking sector through equity participation, corruption in the system, inadequate regulatory framework, unskilled staff and poor banking culture are some of the reasons that are responsible for making the banking sector problematic and fragile.

NRB is responsible for creating conducive environment, where the banking sector can grow and flourish. The effectiveness of NRB contributes to the soundness of financial system. Being an apex institution in the financial sector, it must be equipped with all weapons (such as prudent regulation, supervisory efficiency, skilled staff, strong research wing, etc.) and must be able to show good examples to other financial institutions to follow. In order to play its roles effectively in this complex financial environment, NRB requires overhaul restructuring.

Second, *the unprecedented event of financial crisis in ASEAN economy in 1997 led to believe that regulatory authority must be strong and effective*. It was argued that weaknesses in the regulatory framework and poor monitoring and supervision were among the reasons for the outbreak of crisis in the ASEAN countries in 1997. Moreover the regulatory authorities in these countries failed to anticipate the possible consequences and take corrective measures to overcome such crisis. The lessons learned from that event was the need for a strong regulatory authority that can provide a sound legal framework for the growth of financial sector in the country.

Third, *the central bank should play an effective role to control the capital markets in the country*. The country witnessed a volatile capital markets in 1999 and 2000/2001, in which the share price of some commercial banks worth Rs.100 skyrocketed to over Rs. 3000 in the market. During this period, number of listed companies increased to 115 in 2001 from 66 in 1994; paid up capital reached to 8165 million in 2001 from 2962 million, market capitalization of listed companies reached Rs. 46.3 billion in 2001 from Rs.14.4 billion in 1994, and NEPSE index moved up to 360.7 million in July 2000 from 195.5 billion in 1995. Poor accounting and auditing standards, inadequate financial disclosure, lack of proper information to the general public about the financial positions of listed companies, and speculations of general public rather than having a broader knowledge about the share markets are some factors attributed to the sharp rise of share prices in the market. This event helped to realize the need for a strong central bank that can control and monitor the financial systems efficiently and effectively.

Fourth, *it is argued that the weaknesses on the part of the central bank is also one of the causes for the poor performance of two state owned banks, i.e., Nepal Bank Limited (NBL) and Rastriya Banijya Bank Ltd (RBB)*. A study carried out by KPMG revealed that both the institutions are technically insolvent and reported negative net worth of about US$ 85-140 million in case of NBL and about US$ 200 – 260 million in case of RBB. Serious shortfalls in the areas of corporate governance, corruption in lending, poor accounting and auditing practices, absence of strategic planning and weak human resources were responsible for the poor performance of these two banks. It was argued that NRB's direct involvement in management decisions through its representation in the Board of Directors (BOD), poor supervision and monitoring, and lack of international regulatory framework caused these banks to deteriorate their financial positions.

Fifth, *reengineering is a must for NRB to be capable of performing the new role stated in the NRB Act 2002*. When NRB was established in April 1956, the main functions were to ensuring proper management of the issuance of Nepalese currency notes; making proper arrangements for the circulation of Nepalese currency throughout the country; stabilizing the exchange rates of the Nepalese currency; mobilizing capital for development and developing banking system in Nepal. The NRB Act 1955 was designed to control the state-dominated financial sector. This Act did not provide NRB the sufficient power to control the financial sector. The Act imposed constraints for effectively managing monetary policy, improving the financial infrastructure, strengthening and improving financial markets and their supervision, and facilitating the growth of the financial sector. In the 21st century, the financial systems changed considerably and these functions are no longer a priority for the bank now. New challenges emerged in the banking sector as we moved along with the global community in this era of change. NRB has to be effective in controlling the financial sector where open and liberal policies do exist and the markets play a significant role in the process of national development.

Taking into account the open and liberal economic policies adopted by the government and the changes visualized in the financial sector, there was a need to amend the NRB Act 1955. Accordingly, the new NRB Act 2002 came into effect in January 2002. This new Act has given autonomy to the central bank in exercising monetary and foreign exchange policies, and has set new objectives of achieving price and BOP stability, banking and financial sector stability, establishing sound payment systems, regulating and supervising banking and financial systems, safeguarding entire banking and financial system and enhancing public confidence. In this changed context, NRB need to reinvent its working systems and procedures to effectuate change from 'owner' to the 'facilitator' of the financial sector. NRB requires upgrading the skills of employees, changing the working habits and attitudes, and modernizing the system to ensure that the new role is performed effectively.

Sixth, *to overcome the weaknesses inherent in NRB, restructuring is a must*. There are weaknesses inherent in NRB at all levels and all sectors. According to World Bank "while the government has dominated the financial system as an owner and operator, it (central bank) has failed to perform adequately as a supervisor and regulator of the system. Poor supervision by the central bank is in part to blame for the severe problems of the two largest commercial banks and for the general deterioration in the system. However, the central bank is in no position to adequately discharge its responsibilities. It is handicapped by a lack of autonomy, an inadequate and outdated legal framework, an excessive number of poorly trained and unproductive staff – as well as being in need of radical restructuring. Moreover, its direct participation in the financial sector through representation on bank boards and ownership of development banks has added to its diffuse responsibilities created conflicts of interest and undermined its credibility". Overstaffing, poor incentive mechanisms, a severely compressed salary structure, unskilled human resources, inadequate training and development opportunities, cumbersome rules and regulations posing constraint to develop, attract and retain professional workforce, inadequate regulatory and supervisory framework, absence of accounting and auditing practices based on international standards, poor computerization and networking facilities, low motivation and poor organizational culture are some of the problems that requires attention through restructuring to convert NRB into a modern , dynamic, credible and effective central bank in Nepal.

Improvement Initiatives by NRB Prior to 2000

It can be argued that the improvement initiatives in the financial sector began in the 1980s when the government introduced liberal economic policy in response to the forces of globalization and internationalization of financial markets across the globe. The result of this open and liberal economic policy was the establishment of joint venture banks in Nepal. Foreign banks were allowed to take part in equity participation in establishing banks in Nepal. The establishment of Nepal Arab Bank Limited in 1984, Nepal Indosuez Bank Limited in 1985 and Nepal Grindlays Bank Limited (currently Standard Chartered Bank Limited) in 1987 led to a beginning of new era in the banking development in Nepal. Nepalese financial sector witnessed the foreign investment, modern banking practices, competitive banking environment, and innovative ways of doing banking business with the coming of these banks in Nepal.

Another important development in the financial sector was a progressive shift in the role of the central bank from a 'direct controller' to 'indirect controller'. In the previous case NRB used to direct deposit and lending rates, margin rates, refinance rates, etc. In the later case, NRB deregulated and allowed the commercial banks to fix interest rates above the minimum levels prescribed by NRB. The Structural Adjustment Program implemented under the aegis of the World Bank and the International Monetary Fund further helped to liberalize the financial sector. Some of the important measures adopted during the post liberalization period were: Allowing ADB/N and NIDC to issue debentures (1985); commercial banks were allowed to accept current and fixed deposits in foreign currencies (US$ and Starling Pound) (1985); deregulation of interest rates (1986); departure from direct monetary control to deregulation and indirect methods of control in the financial system (1987); establishment of Credit Information Bureau (1989); a detailed study, known as Commercial Banks Problem Analysis and Strategy Study (CBPASS) was conducted to rehabilitate the two state owned banks in 1990. Similarly, to strengthen the regulatory and supervisory framework, NRB increased capital adequacy ratio from 2.5 percent to 3.4 percent in 1991 and to 4 percent in 1992; amended Finance Companies Act, 1985 in 1992; enacted Development Bank Act in 1996 and issued directives on refinancing and reserve requirements, asset classification, provisioning and liquidity requirements during that period. NRB further liberalized the financial system by abolishing Statutory Liquidity Ratio (SLR) requirement in 1993; issued operating licenses to financial cooperatives and NGOs to conduct the limited banking transactions in 1993 and 1994 respectively; and introduced current account convertibility in 1994.

NRB also went on strengthening the manpower and organizational structure during that period. The total number of position decreased from 2950 in BS 2047 to 1731 in BS 2061 (Table Four). In order to attract and retain the competent staff in the bank, NRB first began to hire Chartered Accountant as Officer First Class[1]. NRB also hired MBAs in 1984. In 1985, NRB also hired Agricultural Experts in order to provide support service in the expansion of agricultural credits to the rural poor. Ph.D holders were recruited directly from the market as Officer Second Class. The system of hiring non-technical staff on temporary basis, both in junior and officer levels was stopped. NRB also established a system of hiring Masters' Degree University topper in Economics and Management through interview. NRB implemented a policy that if any employee gets enrolled in higher study abroad, the bank would fund the entire costs of the study. This policy was later modified. Now NRB is sending employees aboard for higher studies selected on the basis of written examination.

Table 4

Manpower Structure of NRB

Year	Permanent Employees	Temporary Employees	Total Employees
BS 2047	2810	140	2950
BS 2048	2851	131	2982
BS 2049	2826	106	2932
BS 2050	2687	102	2789
BS 2051	2355	134	2489
BS 2052	2326	171	2497
BS 2053	2308	210	2518
BS 2054	2486	267	2753
BS 2055	2501	66	2567
BS 2056	2400	374	2774
BS 2057	2369	368	2727
BS 2058	2336	66	2402
BS 2059	2149	77	2226
BS 2060	1811	63	1874
BS 2061 (Poush)	1661	70	1731

Source: Human Resource Management Department, Nepal Rastra Bank

Branch offices in Biratnagar, Birgung and Bhairahawa were upgraded in BS 2043, and the Special Class Officer was made responsible for the management of branches. When the research and supervisory functions of NRB was centralized to Head Office, these branch offices were brought back again to the leadership of First Class Officer. An Executive Director position, above the Special Class Officer, was created in BS 2041 with a view to release the top management from operational responsibilities. However, this could not be functional because it only added a layer between Special Class Officer and the

Deputy Governor, and later on this practice was abandoned. NRB purchased note-counting machines to modernize and speed up the note counting work. Functions such as doctor's service, gardening, cleaning, canteen, photocopy were outsourced. There were many job titles in the officer levels, creating problems for career planning. Now, in the officer level, there are only four titles – Assistant Director (Officer Third Class), Deputy Director (Officer Second Class), Director (Officer First Class) and Executive Director (Officer Special Class). The names of departments were changed on BS 2059/8/9 to help reflect the actual functions performed by the departments.

It can be argued that despite the initiatives to strengthen the organization and human resource management in the bank, NRB was like a traditional organization, with no direction and vision; bureaucratic in nature and behavior; overstaffed, with de-motivated and unskilled staff; employing the traditional means and methods of operations; and calling for an urgent need for transformation in its systems, processes, structure and human resource management.

Establishment of NRB Reengineering Committee

Although improvements in the areas of human resources, systems and procedures, organizational structure were on-going; the momentum of reengineering was accelerated with the establishment of a Reengineering Committee on August 2001, with the task of designing an appropriate and up-to-date organizational structure as per the new NRB Act. This Re-engineering Committee included five members chaired by the Executive Director of Human Resource Management Department. A senior Policy Advisor from the International Monetary Fund (IMF) provided technical support to this Committee. This Committee submitted its report on March 2002. In the report, the Committee (a) identified major problem areas (b) established principles for structural changes and (c) forwarded proposed organizational structure. These points are explained below.

Major Problems

- There is an overstaffing problem, particularly at lower ranks.
- Qualifications and skills are insufficient in several areas.
- The compensation is inadequate, contributing to low staff productivity and motivation.
- The strategic direction of the institution seems to be unclear to staff and management.
- Decisions are delegated upwards in the organization, leading to delays, uncertainty and inconsistency in the decision-making process.
- The technical infrastructure is inadequately developed.
- The NRB is not regarded as an independent and autonomous institution in carrying out its functions.
- There is considerable degree of overlap of responsibilities and duplication of work in the present organizational structure.
- The top management is overburdened with decisions related to the day-to-day operations.

In order to solve these problems, the Committee noted the need for an overhaul change in the existing organizational structure. The structure of NRB has to be forward looking taking into account the structures of the economy and the financial system, and overall monetary policy objectives. It should meet the response from the His Majesty's Government (HMG), Parliament and the public at large, being the key stakeholders to measure the performance of the NRB. Therefore, the following principles were taken into account while proposing the organizational structure of NRB.

Principles of Reorganization

- The organizational structure must be so arranged that responsibility, authority and accountability for all major functions are clearly defined.
- Activities that are closely related should be located within the same unit/department and activities that serve different objectives should be separated.
- Departmental status should only be given to units when warranted by the importance of functions, the reporting needs of the unit to higher levels and the management responsibility of the head of the unit.
- Distinction should be made between policy making and policy implementation.
- Potential overlaps between units/departments should be avoided. Communication lines should be short and efficient to ensure that management and staff are informed of important matters on a timely basis.

- Activities that are closely related should, as far as possible, be coordinated along vertical reporting and communication lines.
- Functions/tasks that can be terminated, reduced or outsourced should be identified.
- Organizational structure should be flexible so that it can easily be adapted to the changes in central bank priorities over time.

The Committee noted the need for grouping the duties and responsibilities into major functional areas, and proposed the organizational structure as follows.

Proposed Organizational Structure

Accordingly, four important functional areas were identified. They are: (a) Monetary and Foreign Exchange Policy (b) Regulation and Supervision (c) Banking Operations, and (d) Administration/Support Services. It was envisaged that NRB's duties and responsibilities relating to economic research and analysis, monetary policy formulation and implementation, monetary operations, foreign exchange reserve management and statistics shall be grouped under the functional area of monetary and foreign exchange policy group. Likewise, bank and non-bank regulation and supervision, exchange regulation and control and micro finance monitoring were parts of regulation and supervision group. Currency management and operations, branch management, payment systems, banking operations, accounting and budgeting were included under Banking Operation Group. Functions relating to human resource development, personnel administration, information technology administration and general services, security and other facilities, mostly staff functions of the bank were grouped under Administration and Support Services Group.

The Committee then proposed an organizational structure (appendix 1) by introducing a new layer above the Executive Director, making that post responsible for the management of each functional group. The logic for creating a new layer above the Executive Director seemed to reduce the workload of Deputy Governors and Governor, and release them from the operational tasks. The proposed structure was different from the existing one and its features were as follows:

- Similar functional areas were grouped together and proposed to be supervised by a position higher than the Executive Director. This was a shift from the inherent belief that the similar functions should be looked at by separate Heads to ensure check and balance of activities. For example, one Deputy Governor should not supervise bank regulation department and bank supervision department as this may increase the chances of manipulation and other fraudulent activities.
- The proposed structure was aligned to achieving new objectives established in the NRB Act 2002. It aimed at achieving the activities mentioned in the Act.
- With the introduction of one layer above the Executive Director, it was envisaged that top management would be able to concentrate more on policy issues of the bank.
- In line with the principle of agency theory, it was recommended to separate the policy with that of operational functions. For example, Policy Planning Department was given responsibility to formulate and maintain corporate policies relating to Human Resources Development, including personnel policy whereas the proposed Personnel Administration Department was to implement the NRB's policy relating to personnel administration. Another example was to create the Market Operations Department, making the Foreign Exchange Management Department as a policy-making department.
- Outsourcing of canteen, gardening, cleaning, repairs and maintenance and house-keeping; strengthening branches through making Banking Office a coordinating agency instead of branches reporting to multiple departments at Head Office; creating a separate Payment Division for strengthening the payment systems and establishing Statistics Division to ensure central data management system were some other recommendations in the proposed structure.

In addition to these major changes proposed in the report, the Committee highlighted that NRB should look forward through corporate planning. The corporate strategic plan consisting of 3-5 years should be established along with the one-year rolling plan that is in practice. The main objective of this corporate planning is to understand the strategic direction of the NRB as a whole and make it transparent to all employees to enable them to move forward in the same direction.

Other important areas of intervention were to review the HRD measures – right sizing, formulating training policy, reviewing compensation packages so that NRB could attract, retain, and motivate qualified employees at all levels of responsibility.

Implementation of NRB Reengineering Committee's Report

Many of the recommendations forwarded by the Committee were given high importance, as they were quite relevant to modernize the NRB. However, the implementation of these recommendations was constrained due to following observations.

1. The proposed Chief Executive Director position, a level above the Executive Director, was opposed on the ground that it adds a level and expands the span of control in the organization. This indeed diminishes the value of the existing Executive Director because the Executive Directors are eligible for a Deputy Governor post.
2. It was viewed that the Deputy Governors can delegate authority to Executive Directors if they wish to release some of their operational responsibilities. Therefore there is no need for creating a position above the Executive Director.
3. Separation of policy from the operations was felt practically difficult. This, in the context of Nepal, may add more expenses to the organization.
4. The need for creating a Statistic Division was accepted but it requires the reporting systems to be computerized. If reporting system is computerized and departments can access information through network facilities, in such a case centralized data management system would be meaningful.

Policy Planning Department was made responsible to review and implement the suggestions forwarded by the Reengineering Committee. Recommendations, such as outsourcing of some of the support service functions were implemented. In sum, the significance of this Committee was felt due to the following reasons.

1. It proved a groundwork study for the subsequent reengineering activities in NRB. Some recommendations submitted by the Committee was acknowledged and implemented (NRB structure and changes in the names of the departments) during the first phase of reengineering.
2. This report was the first to open the eyes of our executives toward organizational responsibilities as mentioned in the Act. The report identified the weaknesses inherent in the organization and the approach NRB should take to accomplish the objectives set forth in the new NRB Act.
3. It stimulated the spirit of reengineering in the organization. Employees were aware of the need for change in the organization. It helped to build a positive environment for the reform to take place. A journey with new destination and approaches begun, which must be regarded as a remarkable achievement.
4. Series of discussions were held, ideas explored and these discussions proved to be meaningful in making other improvements in the organizations.

In conclusion, it could be argued that the report submitted by the NRB Reengineering Committee proved to be a foundation for the subsequent reforms in NRB. It showed the direction and ways for achievement.

Government Strategy to Strengthen the NRB

The government published a Financial Sector Strategy Statement in December 2000 that specified the role, challenges and importance of NRB in the process of financial sector development in Nepal. It was highlighted that the liberal and open policies adopted by the government in the financial sector since the mid 1980s has contributed to the growth of financial institutions substantially, and this demand the banks to be prudent and have commercial orientation. NRB's new role is to ensure that banking sector follow the prudent rules and regulations, conduct the banking business on commercial orientation and principles, all financial players realize their responsibility and accountability, ensure good corporate governance system, establish internationally accepted standards and practices, transparency and adequate disclosure of financial information and so on. NRB is required to enforce the internationally accepted standards of loan classification and provisioning requirements, liquidity and reserve requirement, capital adequacy requirement, exposure limits, single obligor limit, etc.

Realizing the fact that Rastriya Banijya Bank (RBB) and Nepal Bank Limited (NBL) are in problems due to high levels of non-performing loans and other weaknesses in their operations, and that the two development banks, i.e., Agricultural Development Bank (ADB/N) and Nepal Industrial Development corporation (NIDC) are having similar problems; the government felt to addressed these problems urgently. Therefore, the government of Nepal introduced the banking sector reform strategy that would:

- Initiate a strong corporate governance by ensuring that banks are owned and managed by private investors and professionals through the progressive withdrawal of HMG/N from the ownership of all financial institutions and also refraining from promoting financial institutions primarily with the equity participation of the government or government owned institutions;
- Enhance the authority and the ability of the Nepal Rastra Bank for effective supervision of banks and non-bank financial institutions and enforce regulations as well as move towards increased autonomy of the central bank;
- Improve the existing legal and judicial processes for enforcing financial contracts;
- Improving auditing and accountancy standards within the banking sector; and
- Promote financial discipline through adequate disclosure and competition.

The Nepal Rastra Bank had to take a lead role in implementing the following reform measures.

1. Reform in the Financial Sector Legislation
2. Strengthening Bank Supervision and Inspection
3. Restructuring and Privatization of NBL and RBB
4. Enhance Competition in the Banking Sector
5. Reform on Auditing and Accounting Capabilities
6. Broad-based Banking
7. Streamlining Ownership Structure
8. Establishment of Banker's Training Institute
9. Restructuring of Credit Information Bureau
10. Establishment of Assets Reconstruction Company
11. Revamping Research and Financial Monitoring Strength of the Central Bank
12. Broadening and Deepening the Financial System in Nepal
13. Meeting Sectoral Financing Requirements
14. Establishment of Development Bank at Regional Level
15. Strengthening of Rural Development Banks
16. Establishment of Credit Rating Agency
17. Restructure of ADB/N and NIDC

All these reform measures are expected to assist in creating a sound, prudently managed and well-supervised financial sector, that is competitive, dynamic and capable of contributing towards macro-economic stability and more rapid and sustained economic growth in Nepal.

Realizing the necessity of reform in the banking sector, the government entered into an agreement with the donor agencies to implement the financial sector reform program, including reengineering of NRB. NRB reengineering is a component of broader financial sector reform program. The following section describes the reengineering activities carried out by NRB.

First Phase of Reengineering

The first phase of financial sector reform program was launched with the financial assistance of the International Development Association (IDA) of the World Bank group. The cost of the project is US$30.1 million (IDA credit-$16 million; DFID grant $10 million; and HMG/N grant $4.1 million). This Financial Sector Reform Program included three major components: (1) Reengineering of Nepal Rastra Bank; (2) Restructuring of Nepal Bank Limited and Rastriya Banijya Bank; and (3) Capacity building of financial sector.

IOS Partners, Inc., an American consulting agency was selected for the reengineering work of NRB. IOS Partners started work from March 2003**.** The NRB reengineering team included four international consultants and two national consultants. The team composed of one Human Resource Advisor, one Financial Management Consultant and two local consultants to strengthen the financial management systems of NRB, one Onsite /Off-site Inspection Advisor and one Bank Restructuring Advisor. The number of professional staff months for HR Advisor was 15 months, Accounting and Auditing team: 18 months; On-site and Off-site Advisor: 12 months; and Bank Restructuring Advisor: 2 years.

A Reengineering Steering Committee was established on BS 2060/2/23 under the chairmanship of the Executive Director of Bank and Financial Institutions Regulation Department to analyze and review the suggestions forwarded by the IOS Partners and recommend to the bank management for implementation. This Committee was composed of Executive Directors from Financial Management Department, Internal Audit Department, Bank Supervision Department, Human Resources Management Department, Financial Institution Supervision Department, and this author being the Coordinator of reengineering program. The first phase of reengineering was completed in 2004.

The reengineering program included areas of (a) Organizational development and human resource management; (b) Improvements in the auditing and financial management systems; and (c) Improvements in the regulatory and supervisory functions of NRB. The major reform objectives and progress made in each of these areas are explained below.

Organizational Development and Human Resources Management

The major areas of reform were to streamline the organizational structure of NRB; develop professionalism within the bank by reducing the number of staff and downsizing the organizational structure; decompress the salary structure to retain and motivate professional staff; design master training plan for the NRB staff; review roles and responsibilities of each department and eliminate overlap between departments; establish job description for all positions; and design new HR polices (recruitment, promotion, career development, disciplinary measures, appraisal, remuneration, training and retirement policies) of international standards.

It was thought that the existing eighteen departments and seven branch offices were more than required and the functional departments are inadequate to achieve the roles of NRB envisaged in the new Act. Professionalism was lacking due to overstaffing and low skills and morale of the employees. Problem with the salary structures was that the ratio of highest grade (Executive Director) to lowest grade was about 2.35, demanding salary decompression urgently. A total of 2100 plus employees with 16 percent at officer levels and 84 percent at non-officer levels clearly indicated overstaffing at the lower levels. Further, staff strength of 2100 plus employees was thought high compared to other central banks in the region. HR policies encouraged the seniority rather than merit and competencies.

In order to rectify these problems, the consultant submitted the following recommendations:

- Functional departments must be grouped by the nature of their job and Deputy Governors should supervise the related departments. In connection with this, interim (2 years) and long-term structures was submitted (appendix 2).
- Foreign exchange reserve functions of Foreign Exchange Management Department could be moved to Banking Office, Thapathali.
- Merge Mint Department with Issue Department and outsource the production of all coins.
- Outsource canteen, housekeeping, transportation, gardening, dispensary functions presently carried out by NRB.
- Install more counting machine, use random sampling for checking notes and use the non-destructive methods of bundling notes.
- Banking Office is suggested to be a coordinating agency for branch operations instead of branches reporting to many departments at the Head Office.
- Convert Bankers Training Centre into an independent regional training institute.
- Create a separate career and transfer paths for related departments. It was recommended to create functional groups (banking regulation and supervision, accounting and finance, banking operation, HRM and administration, legal, information and technology, currency management, economics, and others) and transfer and promote employees within the group only.
- Adhere strictly the five-year transfer policy from one department to another department.
- Rename the Policy Planning Department (PPD) as Corporate Planning Department.
- Move budgetary functions from Financial Management Department to Corporate Planning Department to ensure good coordination between plans and budgets.
- Decentralize recruitment policy to departmental level and involve the Executive Director in the recruitment process of departmental staff.

The consultant, after reviewing the salary structure of the existing financial institutions in Nepal, suggested a new set of salary structure, including allowances to be paid to the staff. Job descriptions for officer level positions were prepared. A total of 1485 staff was proposed for the bank. A new Voluntary Retirement Scheme was prepared. Training needs were identified. Suggestions to introduce international accepted practices in HRM policy were forwarded.

NRB implemented many of the suggestions forwarded by the reengineering team. An interim structure was implemented in December 2003. Policy Planning Department was renamed as Corporate Planning Department and budgetary functions was given to that department. Voluntary retirement scheme was implemented twice, first on BS 2059/12/17 and second in March 2004; in which a total of 472 employees opted for retirement. Overlapping functions were eliminated. There was no increase in the basic salary scale however, increase in allowances was approved and implemented in November 2003.

Although some of these recommendations were implemented, it is still felt that the staff strength is high compared to other central banks in the region. Recommendations such as decentralizing the recruitment process to the departmental level and creating separate career and transfer paths for departments need careful scrutiny and consultations and amendments in the existing Employees Manual/ Policies. Although Training Master Plan was prepared, trainings were not conducted during the first phase of reengineering program. Job descriptions, although are prepared, the organizational systems, processes and culture makes it difficult to make employees work as per the job description. The implementation of these uncompleted tasks forms the major thrust in the second phase of reengineering.

Improvements in the Auditing and Financial Management Systems

The main objective of reengineering in this area was to assist NRB in establishing accounting and auditing practices in conformity with international standards. Major areas of reform included review of the planning, budgeting, accounting, management information, internal and external auditing systems, and suggest improvements in these areas. The aim was to review and recommend the accounting systems in conformity with International Accounting Standards (IAS). It was also to implement principles of International Standards on Auditing (ISA). One international consultant and two local consultants provided their technical service in this area of reengineering. The major outputs were as follows:

- NRB should develop a long-term strategic plan for its operations. Like in other countries, NRB must operate with mission and vision statements to show direction and gear all staff towards achieving the long-term goal of the organization.
- NRB's Accounting Manual should be revised in conformity with IAS and the Chart of Accounts must be improved.
- NRB prepares two balance sheets, one by the Financial Management Department and another from the Issue Department. Instead of this practice, it would be appropriate to consolidate two balance sheets and come up with one balance sheet.
- There is an urgent need to upgrade the software used to record the accounting transactions. The existing software is out-of-date and not capable to produce outputs required. It must be linked electronically.
- The inter-branch transactions must be improved by adopting tripartite accounting sub-system to record inter-branch transactions.
- Consultants reviewed the internal audit manual and recommendations for improvements were forwarded.
- Training needs for accounting and auditing staff were also identified.
- Four workshops were conducted on IAS and NRB directives for external auditors of banks and financial institutions to help them understand the requirements under IAS and NRB regulations.

NRB acknowledged the need for developing a five-year strategic plan. The NRB Board in September 2003 approved the vision of NRB as " a modern, dynamic, credible and effective central bank", and mission as " maintain macro-economic stability through sound, and effective monetary, foreign exchange and financial sector policies". Long-term objectives and strategies were adopted. The preparation of five-year plan is underway.

NRB has realized the need for improving the Accounting Manual in conformity with IAS. However, this task is yet to be completed. IOS Partners argued that they would have no time to do the extraneous task of revising and updating the Manual. Other suggestions, such as elimination of Interest Suspense and Branch Adjustment Accounts from the balance sheets to help show actual financial positions; recording of depreciation of fixed assets at the end of each month; and the need for better software were implementable only when the NRB's accounting system is fully computerized and linked electronically. Although the Chart of Accounts was prepared, the Department felt it needs further improvement. The training areas identified for accounting and auditing staff were relevant. Some training programs were also organized, and more to follow during the second phase of reengineering.

In sum, it could be argued that except than some courses offered to external auditors and NRB internal auditors, recommendations suggested by IOS Partners were only implementable upon computerization of the accounting systems, and some were thought not relevant to our practices. For example, preparation of two balance sheets was thought not a problem for NRB as it shows transparency and detail information. However, the study completed in the first phase of reengineering would be a solid foundation for implementing the second phase reform program.

Improvements in the Regulatory and Supervisory Functions

Basically there were three important measures for strengthening the regulatory and supervisory framework in Nepal. First was the strengthening of legal framework for the effective operation of banking in Nepal. Second was to introduce the world-class regulatory measures for the operations of banking in Nepal. And the third was to enhance the capability of NRB staff to carry out regulatory and supervisory functions effectively.

Improvements in the Legal Framework

NRB felt that many Acts govern the Nepalese financial system and strengthening the legal framework is vital for developing a sound financial system. First of all, there was a necessity to amend the NRB Act 1955 so that sufficient autonomy in the conduct of inspection and supervision of banks and financial institutions, monetary policy and licensing of banks and financial institutions could be ascertained. NRB Act 1955 was therefore replaced with a new NRB Act 2002, which provided autonomy in the conduct of monetary policy, inspection and supervision and in the exercise of administrative power by the central bank. The new Act 2002 changed the objectives of NRB taking into account the new roles of a healthy central bank in a globalized economy. Therefore, the new NRB Act 2002 in its Preamble spelled out that, maintaining and achieving price stability through exercising monetary and foreign exchange policies; promoting stability in the banking and financial sector through establishing regulations, inspections and supervisions; developing a secure, healthy and efficient payment systems; and promoting trust and credibility towards the financial systems, are new objectives of NRB.

In addition to the amendment of NRB Act, there was also a need to consolidate the other Acts that govern the financial system. For example, the Commercial Bank Act (1974), the NRB Act 2002 and the Companies Act govern the commercial banks. ADB/N and NIDC are governed by their specific-institution-based legislations. The Development Bank Act of 1974 governs other development banks. Similarly, micro-finance and deposit-taking institutions are governed by multiple Acts – NRB Act 2002, Society Registration Act 1978, Cooperative Act 1959, the Social Welfare Act 1991 and the Financial Intermediary Act 1998. Moreover, there are inherent weaknesses in some of these Acts. Multiple legal frameworks have created problems in the conduct of effective regulations, inspection and supervision. With a view to strengthen the legal framework and consolidate the financial sector, an umbrella Act - Banks and Financial Institutions (BFI) Act 2060 (amended in 2061), has been promulgated. This Act has repealed the Commercial Bank Act, Development Bank Act, two separate institution-based Acts governing the ADB/N and NIDC and Finance Companies Act. In addition to the enactment of BFI Act 2060, the government has approved the Debt Recovery Act. Promulgation of Bankruptcy Act, and Merger and Acquisition Act is in progress. With all these exercises, there have been considerable improvements in the banking legal environment in Nepal.

Improvements in the Regulatory Framework

With a view to strengthen the regulatory framework for the effective conduct of banking business in Nepal, some of the important regulatory measures introduced by NRB are as follows:

(i) The paid up capital for opening a bank at the national level has been raised to one billion from 500 million.

(ii) Investors can only open a commercial bank at the national level if they have joint venture relationships with foreign banks or a technical service agreement for three year with a foreign bank or financial institution(s).

(iii) The share capital participation in a national level bank for foreign banks has been increased to 67 percent from 50 percent. The monetary policy of 2060/61 had further liberalized the provision of 67 percent share participation and given an indication that NRB may allow foreign participation for more than 67 percent if the situation warrants.

(iv) NRB has determined the minimum qualifications requirements for promoters interested in opening banks and financial institutions.

(v) NRB issued directives that commercial banks should maintain capital funds based on their risk-weighted asset, which will consist of 10 percent of capital fund, of which 5 percent should be from the core capital. In the fiscal year 2003/2004, the percentage of capital fund would increase to 12 percent, of which 6 percent shall be from the core capital.

(vi) Loans and advances are being categorized as pass (overdue loans up to three months), sub-standard (overdue loans for 3-6 months), doubtful (overdue loans for 6 to one year) and loss (overdue loans for more than a year), and the commercial banks are required to maintain loan loss provisioning of one percent of pass loans; 25 percent of sub-standard loans; 50 percent of doubtful loans and 100 percent of loss loans.

(vii) With a view to minimize risks of over concentration to a single party, firm or a company, NRB issued directives that commercial banks are allowed to provide credit to a total of 25 percent of core capital on fund based items and 50 percent of core capital on non-fund based items to a single borrower.

(viii) In an effort to improve the accounting practices and ensure transparency of financial information to the shareholders, depositors and the general public, Nepal Rastra Bank formulated statutory forms based on International Accounting Standards and issued directives to follow the approved format in maintaining statements of accounts by the commercial banks and that such statements should be audited by the approved Auditor and published in their annual report and in major national newspapers. Nepal Rastra Bank further informed commercial banks that they should prepare their accounting policy, including investment policy and so on.

(ix) Nepal Rastra Bank established Codes of Conduct for Governing Boards of commercial banks, defined the duties and responsibilities of Board of Directors, established qualifications for the appointment of Chief Executive Officer, defined the Codes of Conduct for employees, instructed to establish a Accounting Committee to provide support to the bank management on financial matters and defined the duties and responsibilities of that Accounting Committee, and restricted to provide credits to the member of Board of Directors and the promoter shareholders and their immediate family members.

(x) Regulatory directives are enforced strictly. In a case of non-compliance of NRB regulations and directives, NRB can execute penalty provisions, including the ultimate provision of cancellation of operating license, suspension of Board of Directors and control over the management. This has helped to make commercial banks more accountable to their work and submit report to the central bank on time.

(xi) In an effort to reduce NRB's involvement in banks and financial institutions, NRB has withdrawn its members from the Board of Directors of commercial banks.

(xii) NRB implemented Blacklisting Regulations, by which defaulters are publicly recognized and an additional loan is not permitted.

The enactment of new NRB Act 2002, introduction of regulatory framework based on international standards, withdrawal of NRB officials from the Board of Directors of commercial banks, and the enforcement of inspection and supervision manual based on the recommendation of the Basel Committee are some important achievements. However, there are still many reform measures to be completed to make the NRB effective to govern the financial system. Strengthening of the Credit Bureau Centre, establishment of Asset Management Company and Credit Rating Agency, strengthening of rural development banks by means of privatization or divesting government shares to the private parties, strengthening of Bankers Training Centre and enhancing competition in the banking sector are some of the activities required for making financial system healthy, effective and competitive. Rules for governing the Credit Bureau Centre has already been approved. A draft legislation to establish the Asset Management Company has been finalized and submitted to the government for approval. A senior level committee has been established to direct and monitor the progress of Regional Rural Development Banks. The second phase is expected to carry forward the remaining activities.

Developing Capability of NRB Staff

Developing capability of NRB staff was an important component of reengineering program. This project sought capability development in the areas of inspection and supervision, regulation, strategic planning, accounting and auditing. Accordingly, training requirements for the staff of these departments were identified.

NRB achieved some satisfactory results in these areas. NRB hired Chartered Accountants in an effort to bring fresh qualified people in the bank. Bank Supervision Department introduced new On-site Inspection manual. Similarly the Financial Institution Supervision Department also introduced Off-Site Inspection manual. Trainings were provided to the staff of Bank Supervision Department and Financial Institutions Supervision Department in the areas of inspections and supervisions. Laptop computers were provided to the staff of these two departments to enable them prepare inspection report at site and reduce the time taken in writing report. Training needs for the staff of supervision departments have been identified. It is expected that the second phase of reengineering program would continue developing capability of NRB staff.

Second Phase of Reengineering (Financial Sector Reform)

It was realized that substantial progress was made during the first phase of financial sector reform program, including NRB reengineering. However, a period of two years was thought not enough for transforming the NRB. It was felt that reengineering exercise should be continued for another term so that the suggestions forwarded by the consultants could be implemented. The World Bank mission reviewed the progress made in the first phase of reengineering and in consultation with the NRB officials, agreed to implement the second phase of reengineering. The second phase financial sector reform program was agreed on June 2004 with a total cost of US$ 75.5 million. This fund comes from IDA credit (US$68.5 million) and grant (US$7.0 million). NRB reengineering, being a component of FSRP, includes the following activities in its second phase.

Human Resource Reengineering

It was realized that human resource reengineering is the heart of institutional reform required in NRB. With the new 'interim' structure implemented, there are possibilities to implement the long-term structure as proposed by consultants. The main aim of human resource reengineering is to implement the suggestions provided by the consultants of the first phase reform. At the heart of its problem is the overstaffing. Although significant numbers of employees have opted the Voluntary Retirement Scheme (VRS), it was thought that the staff strength of NRB should be brought down to less than 1000 positions once full computerization is in effect. Introducing voluntary retirement scheme, or compulsory retirement scheme, outsourcing the currently performed non-core functions of the bank and automation were thought possible means to reduce the staff strength.

Once the staff strength is reduced to the expected levels, this helps to make a strong case for the decompression of salary scales in NRB. Decompression of salaries is considered essential to the professionalization of the institution, and also to attract and retain qualified professionals within the NRB. The first phase of reengineering established a decompression target of 5.6 time compared to present 2.4 times. It is expected that reduction in the size of staff would only make a case for the decompression of salaries.

Another important area of intervention is to introduce new HR policies and procedures. HR polices must be merit based rather than seniority based - as it is now. The international HRM best practices and standards must be followed. Good performance needs to be rewarded whereas the poor performers must be punished. Staff placement polices need to be established because quick transfer of employees often create obstacles to the strengthening of departments.

Delegation of authority is important to relieve the top management from routine duties. It is believed that many unimportant issues are forwarded to the attention of the Deputy Governors and Governor.

This bound to involve top management in small and non-strategic matters taking their precious time away from the policy matters. This could be an argument for the NRB lacking the strategic direction. Delegation or devolution of authority is important to motivate and empower the lower levels employees. In essence, there is a need to change the working culture and habits within NRB. New cultural norms that encourage innovation and team spirit, participation, sense of belongingness and the result-oriented behavior need to be established. Power center has to be broken by changing the existing rules of the game. All these measures expected to be performed during the second phase aims at making NRB a professional institution.

Reforms in human resources, i.e., slim organization, new HR policies, decompressed salary structure, decentralized and entrepreneurial institution with new vision and direction, can be achieved with qualified and professional staff. Staff development is another component of second phase program.

No doubt, changing the culture of an organization is a challenging task. Moreover, introducing new HR polices and procedures – an innovation to the existing procedures would not be easy either. This is all about thinking out of the box, beyond the boundary of operation- but to the right direction. No doubt, achievements in that direction will make NRB a competent and professional organization.

Strengthening the Accounting System

The second phase also aims at strengthening the accounting and auditing functions in line with the International Accounting Standards (IAS). NRB Act 2002 requires ISA in the central bank and the IMF's Safeguards Assessment and subsequent Fund conditionality require the audit of the bank's accounts to IAS by an international accounting firm. Audit of the accounts of NRB by an international firm would result in enhancing internal controls, transparency, and in improving monetary policy statistics.

There are deficiencies such as (i) not operating on an accrual basis; (ii) the non-recording of depreciation on a regular monthly basis; (iii) the non-revaluation of gold holdings for many years; (iv) and the lack of reconciliation of inter branch accounts – thereby inflating overall balances are serious infringements, which require attention. There is also need to revise the Accounting Manual to reflect IAS.

In view of these problems, it is planned that two qualified national accountants would assist the Financial Management Department to enable the central banking accounts meet the requirements of IAS. Emphasis is also placed on accounting training.

Strengthening Banking Supervision and Regulation

Since many of the commercial banks, including NBL and RBB, are not operating satisfactorily, it becomes important that NRB's inspection and regulatory departments be strengthened. The lessons from the Asian crisis in 1997-98 suggest that regulatory and supervisory departments play a key role in strengthening the financial system of a country. Strengthening on-site and off-site inspections, analysis and examination of financial data, production of quality examination reports, reinforcing the regulatory framework in accordance with Basle Committee Guidelines, training to examiners are some of the activities to be performed in the second phase reform. A team of one international expert and seven national examiners is expected to provide service to strengthen the regulatory and supervisory functions. These experts would include bank examiners, non-bank examiners, off-site examiner – to assist in data review and financial analysis so as to provide adequate early warning to potential banking problems, and banking regulator. The phase II envisages the computerization of regulatory and supervisory departments with 50 desktops and 25 lap top computers, so that the time taken in the preparation and submission of final examination report could be reduced.

Upgrading Information Technology

Upgrading information technology is an important component of second phase reform. If the vision of making the central bank competent, effective and run with professional staff is to be achieved; computerization is a pre-requisite. Reducing the number of employees to less than 1000 is also possible if the bank's transactions are computerized. The first and foremost need is to design the IT Master Plan and the specifications of the requisite equipments, the areas of networking and computerization. If NRB has to be a modern institution at par with other central banks in the Asian region, activities such as upgrading the computerized General Ledger (Banking and accounting);

automation of clearing house functions; security systems to ensure movement of electronic information; appropriate software for statistical analysis; establishment of adequate ancillary hardware for controlling the entire computerization within the bank; training to staff; installation of VSAT for communication systems between the branches of NRB; contingency plans and support of local IT experts to solve problems that may arise during computerization process, are required to be performed. Upgrading information technology means changing the working culture in the bank. Better and swifter communications, less paper work, greater access to information, improvement in the management information systems, increased accountability and transparency of information are some of the outputs envisaged from the second phase reform.

To summarize the discussions made in part two, it can be argued that reengineering in NRB is the emergence of changes in the national and international banking environment. NRB was receptive to these forces. The results achieved is due to coordinative efforts from the government, donor agencies and commitment from the NRB. It could be argued that after the second phase reform, Nepalese financial system would be healthy, effective and competitive than now.

PART THREE

Part three includes an independent assessment of the reengineering program implemented by NRB. Is there any material changes visualized in the management of bank, in its systems and procedures or in values and thoughts of employees? It then discusses the challenges ahead for NRB to overcome. Finally some suggestions are forwarded.

Assessment of NRB Reengineering Program

Basically, there are five important reasons for an independent assessment as to the success of reengineering program. It is clear that significant amount has been incurred in implementing financial sector reform program, including NRB reengineering. This, indeed, has increased loan burden to the citizens. It is therefore important that citizens know the returns and benefits from such a reform project. The second issue is the appropriateness of reengineering program or activities. It is often felt that donor agencies, through their conditions to loan package exert pressures to recipient countries to implement principles and philosophies which were successful in their home countries in spite of non-readiness to take over those polices and principles by the recipient countries. The third argument is the impact or reactions to the reengineering program from those affected by it. Are they happy or satisfied with the reform program? Fourth is the results achieved. Instruments for measuring results could be increased savings, improved processes, improved efficiency and effectiveness and enhanced capability of the staff. The last argument for assessment is to provide feedback on the success or failure of reengineering program so that the policy planners could take appropriate policy decisions or any corrective measures to lead the reengineering program in the right direction.

Evaluating the success of a reengineering program is quite a difficult task since multi-facet elements are involved in it. It is also hard to find empirical data to support the argument. Consultants engaged in reengineering project may show a positive picture when they complete each activity mentioned in their Terms of Reference (TOR). On the other hand, users or organization may find hard to justify the results of reengineering in the absence of identified benefits from such changes. Changes for the sake of change do not mean any progress or success. Again, various stakeholders may interpret the term 'success' in various ways. In many cases, reengineering activity becomes a rhetoric event far from success. Therefore, assessment of any reengineering project has to be based on subjective judgment in the absence of hard empirical data.

Let us make an attempt to evaluate the success of reengineering program based on the indicators established above. No doubt, NRB has taken various cost cutting measures. Elimination of unnecessary working committees, withdrawal of allowances paid to committee members, mandatory arrangements for employees to travel on discounted air tickets in economy class instead of full fare economy class, reduction of staff through VRS, nomination of right number of staff for abroad training and seminars, curtailing unnecessary expenses, reduction in the conduct of training and seminars which are not critical for the functioning of departments, etc., are some measures adopted by NRB for costs saving.

In the last two-three years, the fundamental shift has been that employees at all levels have become cost-conscious.

The implementation of 'interim structure' that cluster all departments into four functional areas; harmonization of budget and planning functions under one department; outsourcing of some support functions, such as cleaning, photocopying and gardening; implementation of on-site and off-site inspection and supervision manuals; implementation of regulatory directives of international standards and so on are some measures that might have improved the process and systems in the bank.

It could also be argued that efficiency, which is measured by the ratio of work done to the resources used in producing and delivering services, might have increased as the number of staff in NRB has decreased than before. The man-hour utilized at work might have increased resulting to higher outputs. Elements such as, contracting and improved processes might have contributed to achieving efficiency levels in NRB.

Capability of NRB staff might have improved from the courses conducted. Their ability might have increased when the off-site and on-site manuals were prepared and implemented. These issues explained above do indeed show that the first phase of reengineering was successful to a certain level.

On the other hand, there could be lots of arguments to conclude that the reengineering program could not prove itself successful. Costs savings could be just rhetoric since savings generated might have been offset by the additional benefits paid to employees opted for VRS, hiring of new employees in NRB, additional allowance offered to the employees, etc. It is likely that savings in one dimension might have been offset by increase in expenses in other areas. Many employees and citizens at large may claim that local professionals could have been involved in the reengineering of NRB instead of bringing highly paid consultants from outside.

It could be argued that the activities outlined in the project do not justify hiring of professional consultants from aboard and that these work could have done through local professionals. Therefore, the appropriateness of reengineering project itself could be a subject of argument. From the results point of view, it could be argued that very little change has taken place in the organization and that whatever have been achieved do not justify the costs incurred in the project. Employees may claim that the reengineering program did not bring any substantial impacts in the organization. All these could be parts of argument to conclude that the first phase of reengineering could not be treated as 'successful'.

What conclusions can be drawn then? This author is of the opinion that we have moved a step forward in our mission of making NRB healthy and effective. The process has begun to modernize the NRB. Reform is a continuous process, and that the first phase and the second phase of reengineering will not solve all our problems. They may add value to the process of modernization. It would be our mistakes to depend on others to do things that we are capable of doing it. Employees of NRB must take responsibility for making the organization effective. Changes and improvements must be built-in in our systems and processes. Employees must take ownership for making the organization a best place to work. Our experience with the reengineering program has helped to draw the following learning lessons.

- First, the vision of reengineering program should be clear. The program has to be a felt need by the employees of NRB. It must be expressed in goals and objectives and be transparent to all employees. The benefits of such program must be articulated in all departments, and that as far as possible key officials of the organization must be involved in designing any reengineering program.
- The supply driven reforms are bound to be less successful. The need for reform should have origin at the national level and must be driven by the local officials.
- Third, any reengineering program must be built on local and national circumstances, taking into account country's social, political, administrative and cultural situations. Cultural conflicts often appear during the course of implementation. Suggestions that are administratively or culturally divergent are difficult to be implemented although these suggestions might have worked in developed countries.
- One critical factor for the success of reengineering program is the composition of team members responsible for its implementation. They are the drivers of reform, and therefore must be

knowledgeable, committed and determined. The positive attitude towards achieving the desired vision and goals by the project team members is necessary for the success of reform.

- Fifth, the success of reengineering program depends upon the leadership of the organization. There may be 'winner' and 'loser' from any reengineering program. To effectuate change requires decisions, and any change may have wide implications. Therefore, the leaders must have a clear direction and firm commitment to pursue the reengineering program.
- It has to be recognized that reengineering has to be a continuous process and must be built-in into organizational systems and processes. It should be a regular phenomenon to repair if any part of the organization does not work properly. NRB should not try to fix all problems at once. The failure or the reform fatigue may kill the most successful reform efforts. Therefore, reform programs must be logically sequenced and incrementally carried out so that it generates interest to all concerned.
- Seventh, progress achieved through reengineering program must be made public. Many times criticisms for reengineering comes because the employees and general public are not aware of the reengineering programs, its objectives, aim and directions, and achievements. Therefore, transparency of information is vital to gain the trust, and build a positive environment for the sustainability of the reengineering program.
- Last but not the least, any reengineering program must have evaluation mechanisms established, as it helps to recognize the problems and achievements and provide feedback to the policy planners. It is also important to rectify the problems seen in the process of implementation.

Problems, Challenges and Recommendations

The liberalization and globalization of financial market, Nepal's membership to World Trade Organization (WTO) and opening of banking to the world community by 2010, the growing trade interdependence and rapid expansions in the capital flows, cross-border competition, and fundamental shifts towards market-based policy regimes, etc., have created opportunities as well as risks to the financial sector in the country. The Nepal Rastra Bank, being an apex institution in the banking sector, should understand the global pressures in order to create the financial sector sound, healthy and competitive. The following are some important challenges and recommendations to transform the NRB and help play a catalyst role in the 21st century.

Making Financial Sector Reform Program (FSRP) Successful

The banking sector plays an important role in the economic development through facilitating the intermediary functions between capital surplus and deficit units. Banks mobilize funds to generate income and help raise the economic standard of general public. The inefficiency in the banking sector creates serious problems to the national economy. Realizing that the two big banks (Nepal Bank Limited and Rastriya Banijya Bank) are in serious problems due to their high levels of non-performing loans, the government has launched Financial Sector Reform Project under the loan assistance from the World Bank. The total cost of first phase FSRP is about US$ 30.1 million (inclusive grant), and US$ 75.5 million (inclusive grant) for the second phase. The Nepal Rastra Bank is the pioneer institution, entrusted by the government, to implement this FSRP. Failure to bear this challenging responsibility will destabilize the whole financial system. The citizens will question the efficiency of NRB if in case reform does not yield results as anticipated. Therefore, NRB must give top priority to manage this project by establishing a core team of committed experts to handle this project, so that FSRP could be successful.

The task is not that easy. To make the FSRP successful, a coordinative and integrative effort from all concerned is required. NRB must ensure that banks follow good management practices, improve financial information system, reinvent the human resource management system, and computerize and modernize their activities. Moreover, NRB in coordination and consultation with the government should come up with ways and means to compel the defaulters to pay back their loans. NRB should also play a key role in the establishment of Assets Management Company and strengthening the Credit Information Centre, and bringing other legislations that are critical to the success of FSRP.

Creating an Environment Where Financial Sector can Flourish and Prosper

Although the Nepalese financial sector has grown rapidly in numbers in the last two decades, it still lacks the competitive behavior and strong legal base. The overwhelming dominance of the government in equity participation in major financial institutions and absence of some important legislation to govern the financial sector are among others, obstacles for the financial sector to grow and flourish. Some improvements, such as, the enactment of new NRB Act, 2002, Debt Recovery Act, 2002 and By-Laws, Bank and Financial Institution Ordinance 2004, establishment of Debt Recovery Tribunal in 2003, have been made in this front. But there are lots more to do. Other important legislation such as Secured Transaction Ordinance, Insolvency Ordinance, AMC Ordinance, Anti-Money Laundering Ordinance, Trusty Act, Securitization Act, Merger and Acquisition Act, are yet to be enacted. There is also a need for Micro Finance Act in order to consolidate the operations of micro finance activities in Nepal. At present various Acts govern the micro finance business in Nepal. The time has come for NRB to revisit its policy to regulate and supervise the micro finance institutions in Nepal. There are emerging thoughts that a second tier institution, an apex body, should be established to regulate and supervise the micro finance activities in Nepal. These are some challenges for NRB in the days to come. Enactment of these Acts will help to strengthen the legal framework and will create a sound environment for the financial system to grow and flourish in the country.

Developing a Strategic Direction for NRB

Developing long term planning is a new concept for NRB. What NRB would look like (for example) after 10 years? What are the strategic directions for NRB to achieve in the next 10 years? What are the activities that should be performed to reach that desired destination? All these questions must be answered. The corporate plan must cascade down to the departmental levels and be linked to individual performance. NRB at this stage is not clear as to how it should look like after 10 years.

NRB has moved a step forward in this direction with the approval of vision, mission, objectives and strategies by its Board on September 2003. The long-term vision and mission established are to be achieved through formulating necessary monetary and foreign exchange polices in order to maintain the price stability and balance of payment for sustainable development of the economy and manage it; promoting stability and ensuring liquidity required by the banking and financial sector; developing a secure, healthy and efficient payments system; regulating, inspecting, supervising, an monitoring the banking and financial system, and promoting and developing the overall banking and financial system and enhancing its public credibility. Realizing the importance of long term planning, a Corporate Planning Department has been established. With this a journey has begun but the skills, motivation, commitment, importance, and priority for long term planning are yet to be build up in the bank.

NRB would require reinventing itself in order to be a modern, dynamic and credible central bank. First, each departmental plan must focus on attaining the mission and vision of the organization. Employees in the organization should be aware of their performance linkage to the mission and vision of the bank. A five-year plan with measurable performance standards clearly linked to the overall vision of the organization should be established. Second, to be a 'modern bank', NRB would require improvements in the organizational and physical facilities, computerized and electronically linked to all departments. To be a 'dynamic bank', NRB would require improvements in the working systems and processes so that services could be rendered on time, efficiently and effectively; mechanisms must be established to ensure flexibility in systems and processes when work does not turn out as planned. And to become a credible bank, NRB must strengthen its character, conviction, courage, competence and care to its stakeholders.

Building Positive Work Culture in NRB

Culture means a system of shared meaning that determine, in large degree how employees act in the organization. Culture is comprised of the assumptions, values, norms, and tangible signs (artifacts) of organization members and their behaviors. Since the employees' basic assumptions, values and norms drive practices and behaviors in the organization, building a positive work culture is a challenging task for NRB. It guides how employees think, act and feel. Therefore, the success and failure of any organization is attributed to organizational work culture.

Looking at the work culture in NRB, there appear weaknesses in its systems and procedures that encourage positive work culture. Examples are: centralization of power, absence of teamwork and spirit, absence of mechanisms to reward employees for their innovative work, absence of performance indicators and measures for employees to work with, etc. It seems that individual interest dominates over the institutional interest. Employees' sense of attachment with the organization is lacking. To revert this passive organizational culture, it is important that the policy place the highest possible emphasis on the development and satisfaction of employees. The management practices should be performance–centered, i.e., performance should determine the rewards and punishments. Employees are goal oriented and are geared towards achieving that direction. Organization supports and stimulates for innovation, creativity, flexibility and diversity. Customer satisfaction is given greatest consideration. Efforts are made to maximize outputs by eliminating wastage and retaining quality in the services.

Strengthening Research and Policy-making Capability in NRB

It is a basic requirement for a modern central bank to have well-developed research and policy-making capabilities. The formulation and implementation of monetary, foreign exchange and banking policies depend on the staff capabilities. If policy wing becomes poor, NRB may be failing in performing its core functions effectively. Although the new NRB Act 2002 has established a Management Committee to discuss and approve major policy decisions; support to this Committee is essential from the research and policy making departments. Financial data are important inputs for the formulation of policies. At present, the statistical function of NRB is poorly organized. Departments need to run around to find appropriate data for research, planning and reporting purposes. Data are not available on line. Therefore, if the NRB has to perform its core functions effectively, research and policy-making capabilities, including strengthening the statistical functions are of great importance.

Empowerment of Employees

Of all the resources, human resources are the most important for the success of any organization. Their commitment, satisfaction, determination, interest and motivation are vital for any organization. The global trend is that organization is getting lean, structured horizontally, and managed by a diversified team of people. Employees believe on their own expertise and relationships to get work done rather than the power given to them by the job and feel satisfied if they find opportunities to work hard and gain portable career assets- skills and reputation for them to apply in another work place. New motivational tools are giving employees a sense of purpose and pride in their work, control over the jobs, the learning opportunities, a sense of ownership over the jobs, and an opportunity to gain reputation by performing the task. All these activities empower the employees at work.

In case of human resource management in NRB, it could be argued that there is an urgent need to empower the employees. Employees are confused about their duties and responsibilities. Authority is mostly centralized at the top. The high performers do not get opportunity of progression due to priority given to seniority in HR management. Rarely distinction is made between high performers and timeservers in terms of rewards and punishments. Salary and wages given to NRB staff are not at par with other financial institutions in the Nepalese market. This has demoralized the NRB staff.

Creating an environment where employees are satisfied and feel pride of being the staff of NRB is a great challenge for NRB in the days to come. A delegation of authority table has to be established so that authority vested at the top could be shared down in the hierarchy. A system should be established to make a proper distinction between the performers and timeservers. Performance indicators are to be established to make proper evaluation of performing and non-performing staff. Reward and punishment should be performance based. Merit should determine the career progression than seniority. Management should encourage those staff that are innovative in doing work. Employees should be given freedom at their work with proper checks and balances so that they are satisfied. Duties and responsibilities must be made clear to all employees. Reinventing the organizational culture in line with modernization process is of utmost importance.

Computerization and Modernization

The current status of IT development in NRB could be argued as poor. Although PCs are available, they are used for typing and storing personal data only. Departments do not have access to information of other department electronically. Although email facility has been established, the working culture is still paper based.

Computerization is an essential component in order to make NRB a modern, dynamic, credible and effective central bank. Changing the working culture in NRB with access to communications and better information systems through the means of networked computers is the desired direction for all of us. This would, enhance the image of NRB; help establish and promote the systems of payments, clearing and settlement; eliminate the paper work and wastage; and provide swifter management information system. In this respect, computerization of ledgers, establishing strengthening on line network system with branch offices, establishing and security systems to ensure safety in the movement of electronic information, training to employees involved in IT functions are some of the activities that should be pursued for making a modern central bank.

Strengthening Regulatory and Supervisory Functions

Despite the regulatory framework of international standards (capital adequacy, loan classification and loan loss provision, credit concentration and single obligor limits, accounting policies, directives on good governance, transparency and accountability, reporting requirements, regulations on the transfer of shares, etc.,) are being implemented by NRB, the health of the financial sector is still weak. Effective implementation of these regulatory measures in the financial system is still a great problem for NRB. The principles and practices of BASEL II expected to be implemented by 2007 poses further challenges to NRB. Effectively implementing the on-site and off-site manual and procedures, effective implementation of supervision reports and corrective actions to be taken thereon, upgrading the regulatory and supervisory skills, establishing foundation to implement Basel-II by 2007 and establishing and strengthening the institutional framework for creating a sound, effective and healthy financial sector are some challenges for NRB.

Improving the Quality of Service

The Nepal Rastra Bank faces many challenges from its stakeholders. Its performance is to be measured by the banks and financial institutions, government agencies, international donor agencies (World Bank and IMF), the general public and so on. In order to create a good image of the institution, NRB should improve its service delivery systems. It is true that our stakeholders like prompt service, professionalism in dealings, clear information and the value of money paid for procuring the services. They also like to be respected and dealt courteously. They want established mechanism to redress their grievances and complaints. Therefore, NRB should take an innovative approach in improving the delivery of its services. NRB should providing information that is clear, timely, accurate, and available at all points of contacts, and meet the needs of people. Rules, regulation, forms, information leaflets and procedures should be simple and understandable to a layman person. Wherever possible, NRB should try to provide them choice in service delivery including payment methods, location of contact points, opening hours and delivery times. In order to redress the complaints, NRB should create a well publicized, accessible, transparent and simple to use system of dealing with complaints about the quality of service provided. The office premises should be clean with facilities of privacy, connected with all means of communications. Stakeholders should find easy ways to contact the person needed. Detail address of NRB including names, room numbers, and telephone numbers should be displayed to help the client contact and complete the transactions. Employees must be trained so that they could deliver services with courtesy and minimum delay, fostering a climate of mutual respect with customer. Citizen's charter and service standards must be established.

Conclusions

Reengineering is a process of instituting change within the organization. Change is inevitable for the survival and growth of NRB. The globalization and internationalization of financial market, the complex financial systems within the country and the emerging needs for better and quality service require NRB to be innovative, dynamic and effective. Reengineering has to be a continuous process built-in in our regular organization systems and processes.

Reengineering program implemented under the aegis of donor agencies is only a piece-meal effort towards making NRB effective. The first phase reengineering program established the groundwork for the second phase to begin with. The second phase of reengineering will try to address some of the challenges that are being visualized. But, there are many challenges that NRB Reengineering Program will not address. Donor support could be a short-term phenomenon. Instead of commenting on the success or failure of donor supported reengineering program, it would be appropriate for us to take the ownership of reform and sit on the driver seat. It has to be understood that dependency on others kills our innovative skills, courage and ability to do our best. NRB must take reengineering as a continuous process built-in into its systems and processes, in its structure and people. Efforts should be made in creating an environment whereby all departments move forward in improving the systems and processes that do not work or becomes obsolete.

It is to be recognized that change is a difficult task. Our culture so far is to maintain status quo and avoid risks. There is a fear of failure when initiating any change program. There are obstacles created by the looser of reform program. The personal interest tends to offset the organizational interest. The future is uncertain with no certaining that the new policies and procedures will bring best results. Therefore uncertainties always prevail when doing any reengineering program.

Despite the threats prevailing in every reengineering program, the clear vision of the program, transparency of information, employees participation in the reengineering process, training and skill development and commitment from all concerned are bound to take the NRB to the height of its expectation. This could be only done, not by others, but by NRB employees. A realization of this fact could only make NRB a modern, credible and effective central bank in Nepal.

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Financial Management

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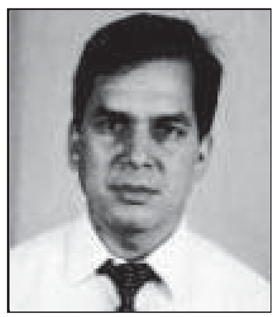
Definition and Objective

Mr. Shrestha



Mr. Kandel

Financial management refers to those managerial functions, which are related with deciding on alternative financial resources and its effective utilization. It is concerned with planning, acquiring, administering and controlling of the firm's financial resources. Effective utilization of the fund with a view to maximizing shareholders' wealth is core matter of this subject.

The financial resources are lifeblood of an institution. The slightest mismanagement of these resources may cost heavy to the firm. As both over/ under liquidation situation is harmful to the organization, special care must be taken while managing the financial resources. Considering all these aspects, this subject has gained enormous importance in recent days and has been developed as specialized faculty.

As a convention, the core objectives of financial management revolve around following three basic questions?

Whether to raise funds and in what amount?

Whether to invest funds and in what amount?

How much to pay as dividends?

The first question of whether to raise a fund or not and if yes in what amount, could be termed as traditional approach of financial management. Under this approach the importance of managing the raised fund is completely ignored. Gradually and steadily, the focus was shifted from rising of funds to efficient and effective utilization of funds. These concepts kept on developing and arrived to the modern day approach, where both sides of acquisition and utilization of fund are given equal importance so that value of shareholders' wealth could be maximized. Various economic and environmental factors, continuous globalization of business and ever increasing use of computer based electronic technology has changed the concept of financial management to the modern approach.

There are a number of other related areas where the scope of financial management is expanded sector. Managerial decisions are taken with coordinated efforts of all concerned branches of the organization. Some of the elements of financial obligations would be present in almost all decisions. In these context, the above said core objectives of financial management may further be subdivided into following additional questions:

What should be the expansion strategy?

What should be the composition of its liabilities?

In what form should it hold its assets?

What would be the appropriate time for divesting its investment portfolio?

When should the debt be recalled? etc.

Key Functions of Financial Management

Establishing Assets-Management Policies

Nowadays, it is popularly known as ALCO policy, where maturities of each component of assets and liabilities are monitored by preparing 'maturity profile'. In other words, by establishing assets-management policies, it is determined that how much cash will be tied up with particular item of assets and liabilities and for how long. The formation of sound and consistent asset-management policies is an indispensable pre-requisite to successful financial management.

Determining the Allocation of Net Profits

After arriving at financial net profit after tax for the year, it has always been a great challenge to financial managers to determine as how much to retain and how much to distribute. The distribution may either be to the shareholders as dividend or to the employees as benefits. Whether to pay to outsiders or retain depends upon numbers of factors such as dividend policy of the particular institution, past trends, market conditions, expectations from shareholders etc. One of the key functions of the financial management is therefore to appropriately decide on how the available profit should be allocated.

Estimating and Controlling Cash Flows and Requirements

Maintenance of liquidity is another essential function of financial management. There are a number of cases, where the big firms with volumes of book profit facing cash crunch because of mismanagement of cash flows. The financial manager should act on to match the inflow of cash to its outflow so that, there would be no idle cash balance. This situation is also known as 'synchronized cash flows', where cash inflows coincide with cash outflows, thereby permitting a firm to hold minimum possible transaction balance of cash. Working under this function, the financial manager may face the dilemma of liquidity vs. profitability, because whenever company maintains comfortable liquidity, there would be opportunity loss because of the idle cash.

Deciding Upon Needs and Sources of New Outside Financing

Yet another crucial function of financial management is to decide on the appropriate need of the additional funds to supplement the cash flowing from regular business operations. In the same course of decisions, the financial manager will further decide on when such funds will be needed, how long they will be needed, how best they can be raised, and from what sources they will be repaid.

Checking upon Financial Performance

The analysis of financial results is of great value to financial managers. There must be the system to conduct periodical analysis by preparing comparative charts and by applying various managerial tools e.g. ratio analysis, break even charts etc. Analysis of what has happened, how it has happened, what could have been better etc is of utmost importance in improving the standards, techniques and procedures of financial control.

Key Financial Tools Used in Financial Management

Ratio Analysis

A ratio is a statistical yardstick that provides a measure of the relationship between variables or figures. Ratio analysis is the process of determining and interpreting numerical relationships based on financial statements. It is one of the key financial ratios, where the financial ratios are used for assessing the financial performance and financial position of the company by means of various ratios that relate to the liquidity, turnover, profitability etc of a company. The major ratios used under this analysis are current ratios, turnover ratios, profitability ratios and debt management ratios.

Breakeven Analysis

Breakeven analysis shows the relationship between sales volume and operating profitability. It is the method of determining the point at which sales will just cover the operating costs. It further shows the magnitude of the firm's operating profits or losses if sales exceed or fall beyond certain given point.

Leverage Analysis

Leverage analysis is the technique used by business firms to quantify risk return relationship of different alternative capital structures. In financial analysis leverage represents the influence of one financial variable over some other related financial variables, which may be costs, output, sales revenue, earnings before interest and taxes (EBIT), earnings per share (EPS) etc.

Risk and Return Analysis

Risk is a chance of losses. In the financial context, when an investor bears the chance of receiving an actual return other than expected, it may be called as risk associated with that investment. In other words, it is the variability in the returns or outcomes from the investment. If there is greater variability of the possible outcomes from the investment, it would be treated as more risky investment.

Return is the weighted average of the outcomes, and the weights used are the probabilities of that condition. In other words, return is expected realization from an investment and can be calculated as the mean value of the probability distribution of possible results. Risk can be measured with the help of Standard Deviation, Variance or Coefficient of variation etc and can be managed by applying concept of portfolio management, analysis of beta coefficient and Security Market Line etc.

Capital Budgeting Techniques

Efficient allocation of capital is one of the most important functions of financial management. This function involves the firm's decision to commit its funds in long-term assets and other profitable activities. Capital budgeting decision may be defined as the firm's decision to invest its current funds most efficiently in long term activities (beyond the one year period) its anticipation of an expected flow of future benefits over a series of years. Capital budgeting decision will include addition, disposition, modification and replacement of long term or fixed assets. Since capital budgeting decisions are among the most crucial and critical business decisions, special care should be taken in their treatment

The important steps involved in the capital budgeting process are: (i) project generation (ii) project evaluation (iii) project selection and (iv) project implementation. The most widely accepted investment techniques for evaluating financial aspects under capital budgeting could be grouped into the following two categories:

Traditional or non-discounted cash flow techniques:

- Payback period
- Accounting rate of return

Discounted cash flow techniques:

- Net present value
- Internal rate of return
- Profitability index.

Working Capital Management

Working capital management is the functional area of finance that covers all the current accounts of the firm. Working capital refers to the funds invested in current assets, i.e. investment in stock, sundry debtors, cash and other current assets. Conceptually, working capital may be gross as well as net. Total investment in all current assets is the gross working capital, whereas net working capital refers to the excess of total current assets over current liabilities. From the point of view of time, the term working capital can be permanent, which is hard-core working capital and temporary, required by a business over and above permanent working capital.

Capital Structure

It refers to taking decision on composition of sources for the long-term funds required in a business i.e., the proportion of equity share capital, preference share capital, debentures and other sources of long term funds in the total amount of capital which an organization may raise for establishing its business. The capital structure is said to be optimum when the firm has selected such a combination of equity and debt so that the wealth of the firm is maximum. At this level, cost of capital is minimum and the market price per share is maximum. Profitability, flexibility, conservation, solvency and control are some of the features of the appropriate capital structure. Similarly, risks, cost and control are the factors, which determine the capital structure of a particular business undertaking at a given point of time.

Cost of Capital

The cost of capital is significant factor in designing the capital structure of an undertaking. The basic reason behind running a business undertaking is to earn a return at least equal to its cost of capital. Basic definitions of cost of capital of each source of finance are as follows:

- **Cost of debt:** The explicit cost of debt is the interest rate as per contract adjusted for tax and the cost of raising the debt.
- **Cost of preference share:** In the case of preference shares, the dividend rate can be taken as its cost since it is this amount which company intends to pay against preference shares.
- **Cost of ordinary or equity shares:** There are many approaches regarding calculation of cost of equity shares. The four main approaches are (i)

Dividend/price ratio (ii) Earning/price ratio (iii) Dividend/price + growth ratio and (iv) Realized yield approach.

Dividend Policy

The term dividend refers to that portion of profit (after tax), which is distributed among the owners/ shareholders of the firm and the profit that is not distributed, is known as retained earning. The dividend policy of the company should aim at achieving the objective of the company to maximize shareholders wealth. Legal considerations, stability of earnings, opportunities for reinvestment and growth, cash flow, level of inflation in the economy, effects on market prices and tax considerations are some of the factors, which determine the dividend policy.

Portfolio Management

Portfolio management refers to the selection of securities and their continuous shifting in the portfolio to optimize returns to suit the objectives of an investor.

Security/safety of principal, stability of income, capital growth, marketability, liquidity, diversification and favorable tax status are the objectives of portfolio management. Following three major activities are involved in an efficient portfolio management.

- Identification of assets or securities, allocation of investment and identifying asset classes.
- Deciding about major weights/ proportion of different assets/ securities in the portfolio.
- Security selection within the asset classes as identified earlier.

International Financial Management, Foreign Exchange Exposure and Risk Management

The essence of financial management is to raise and utilize the funds effectively. This also holds good for the procurement of funds in the international capital markets, for a multi-national organization. There are various avenues for a multi-national organization to raise funds either through internal or external sources. Internal funds comprise share capital, loans from parent company and retained earnings. In the present globalize scenario, external funds can be raised from number of sources. Such outside sources may be commercial banks, development banks and financial institutions, discounting of trade bills, international agencies, international capital markets etc.

During the recent years, there has been tremendous growth in international investments through various intermediaries especially off-shore country funds, mutual funds, individuals and institutions like IMF, World Bank, this may not be the name of any institution and a host of other international agencies. The rapid industrialization, advancement of technology and communication facilities, the availability of rapid means of transportation has all contributed towards the globalization of business across the frontiers of countries.

Due to the globalization of business, the capital raising from the international capital markets has assumed significant proportion during the recent years. The volume of finance raised from international capital market is steady increasing over a period of years, across the national boundaries. There have been new innovations in the product developments including derivatives. Every day new institutions are emerging on the international financial scenario and introducing new derivative financial instruments to cater to the needs of multinational organizations and the foreign investors.

Multinational organizations are inclined to invest in/ borrow from abroad for managing risk, obtaining higher returns and tax benefits. However, risk on foreign exchange fluctuation is the basic problem in international financial management. Generally risks, which an investor faces, have been categorized as (i) foreign exchange rate risk (ii) interest rate risk (iii) credit risk (iv) legal risk (v) liquidity risk, and (vi) settlement risk. There are, however, various ways through which a company may protect itself from possible losses arising out of risk.

Financial Management in NRB

Financial management is considered to be a vital and integral part of overall management of Nepal Rastra Bank (the NRB/the Bank). NRB has to take various investment and financing decisions as a central bank of kingdom of Nepal. Broadly, the finance function of the Bank may be enumerated by explaining first the each individual component of financial statement comprising assets, liabilities and equity.

The balance sheet or the statement of financial position is one of the most significant financial statements. It indicates the financial condition or the state of affairs of an enterprise at a particular moment of time. Categorically speaking, the balance sheet contains information about the resources and obligations of a business entity at a particular point of time. It communicates and discloses information about the assets, liabilities and owners' equity fund of an institution as on specific date.

Balance Sheet

Assets

Assets are the valuable possessions owned by the Bank. These possessions should be capable of being measured in monetary terms. Assets are future benefits and represent economic strength. In the context of Nepal Rastra Bank, assets are classified as follows:

Foreign Currency Financial Assets

(i) Currency in hand and with bank: This comprises foreign currency cash in hand including Indian Rupees kept in IC Chest and balances with banks abroad in demand deposits and time deposits.

(ii) Investments in treasury bills: A specified portion of foreign currency has been invested in US Government treasury bills and Indian government treasury bills, which are shown in this head.

(iii) SDR holdings: This is the IMF monetary unit and country quota released by IMF held in this account.

(iv) Other receivables: This item mostly includes of interest accrued on investment of foreign currency financial assets.

Local Currency Financial Assets

(i) Cash in hand: Nepalese currency notes and coins in hand and held at vault other than balance in note chest is shown in this head.

(ii) Investment in government securities: These include primary and secondary market investments in treasury bills, saving certificates; securities purchased under resale agreement, other bonds and securities and IMF bonds. IMF bonds represent the non-interest bearing bonds issued by HMG/N in favor of Nepal Rastra Bank for the discharge of HMG/N obligation to the IMF, which has been recognized by the Bank. The investments under this heading is regulated by the provision of the NRB Act, 2002, which has restricted to hold the investment in HMG securities up to ten percent of previous year's government revenue.

(iii) Investment in financial and other institutions: The Bank has invested in the shares of all five Rural Development Banks, Rastriya Beema Sansthan, APROSC, Deposit Insurance and Credit Guarantee Corporation, Citizen Investment Trust, Nepal Stock Exchange Limited, National Productivity and Economic Development Center, Rural Micro-finance Development Center, CSI Development Bank, NIDC, Nepal Development Bank and Agriculture Development Bank. It has also invested in Rural Self Reliance Fund as seed capital.

Section 7 of Nepal Rastra Bank Act, 2002 does not allow holding investment in shares of any enterprise more than ten percent of their share capital. Accordingly, the Bank has initiated necessary procedure to offload those investments in excess of limit prescribed by the Act.

Provision for diminution in value of investment in shares have been made on the basis of financials of invested institutions and appropriate estimation made by the management as at the close of the year.

(iv) Other Investments: These are investment of employees' funds and development related equity funds in government bonds and fixed deposits with commercial banks.

(v) Refinance and loans: Employees related loans and refinances to banks as well as financial institutions are included under this head. Provision for possible losses in respect of loans and advances have been made on the basis of financials of borrower and appropriate estimation made by the management.

(vi) Other receivables: This comprises interest accrued net of provision, deposits, advances recoverable and bill purchased etc.

(vii) Gold and silver reserves: These precious metals are held by Currency Management Department to support the liabilities arising out of currency in circulation. Gold reserve also includes gold invested in banks abroad, account of which had been maintained by Foreign Exchange Management Department. Currency in circulation represents notes issued by Nepal Rastra Bank, which is a sole currency issuing authority in Nepal.

Gold and silver reserves (including gold receivable) are stated at the revalued amounts of the gold and silver content. Any appreciation on revaluation is taken to 'Gold and Silver Equalization Fund'. However no such revaluation subsequent to the exercise carried out in 1986 has been done. Gain/loss on disposal of gold and silver reserves is transferred to the profit and loss account.

Other Assets

Gold and silver stock and other inventories: These include gold and silver, security note stock, numismatic and medallion coins, other metal stocks, stationery and other sundry items. Stocks other than security notes, stationery and other sundry items are held by Mint Department for manufacturing and trading purpose. These are carried at cost or net realizable value whichever is less. Cost is determined under First in First out (FIFO) method.

Property plant and equipment: These long term assets are classified into land, building, furniture and fixture, office equipment, vehicles, machinery equipment, computer equipment, capital work in progress and other miscellaneous long-term items. Freehold land as well as capital work in progress is stated at cost. Other fixed assets including property plant and equipment are stated at cost less accumulated depreciation. Depreciation is calculated using the straight-line method over their expected useful life without taking into account any residual value.

Depreciation on addition is charged for the whole year, if the assets are put to use within first nine months of the accounting year. No depreciation is charged on the assets purchased and/or put to use in the later three months of the year. Similarly, no depreciation is charged in the year in which assets are deleted. Normal repairs and maintenance are charged to the profit and loss account as and when incurred. Major renewals and improvements are capitalized. Gain and loss on the disposal of fixed assets are included in the current year's income statement. The Bank has adopted a policy to charge to profit and loss account by the cost of the fixed assets, if the value of such assets per unit is Rs. one thousand or less.

Grants or donation received on account of capital expenditure are recorded as grant assets and corresponding grant assets reserve are created as capital reserve. These are amortized over the useful life of the relevant assets.

Liabilities

Liabilities are debts payable in future by the Bank to its depositors, creditors etc. They represent economic obligation to pay cash or provide goods or services in some future period. Generally, accepting deposits, borrowing money or purchasing goods and services on credit creates liabilities.

Foreign Currency Financial Liabilities

(i) Deposits from banks and other agencies: These foreign currency deposits are amounts deposited by banks and financial institutions, foreign diplomatic missions and other agencies.

(ii) IMF related liabilities: These include SDR allocation and loan under Poverty Reduction Growth Facilities (PRGF). SDR allocation is the facility available under IMF quota for the country. Contra entry of this account is SDR holding.

(iii) Other liabilities: These represent the deposits remaining outstanding in KFW account and accrued interest payable to ACU and IMF towards the loan obligations. HMG/N under the economic assistance agreement with German government has undertaken to maintain the KFW account. The obligation of the implementation of agreement under the said loan is of HMG/N and KFW.

Local Currency Financial Liabilities

(i) Deposit and other balances: Nepal Rastra Bank is a banker to the government, banks and financial institutions. Deposits and other balances under this head consist of balances of HMG/N, deposits from banks and financial institutions, balances of other institutions, IMF account no 1 and 2, earnest money, money changer deposits, margin against LC etc. Deposit liabilities include the amounts deposited by banks and financial institutions to maintain their cash reserve ratio. These deposits are non-interest bearing.

(ii) Bills payable: The Bank carries out the function of repayment of government securities and interest thereon on behalf of the HMG/N. Bill payable primarily represents the unadjusted amount of payments received from HMG/N in respect of interest/repayment liabilities of such securities.

(iii) Staff liabilities: The Bank operates contributory retirement funds for all permanent employees in which equivalent amount are contributed by the staff, and other staff retirement funds and benefit schemes. They are:

- Gratuity scheme for employees who worked for five years or more but less than twenty years;
- Staff welfare provident fund scheme;
- Staff life insurance scheme;
- Staff medical scheme;
- Pension scheme for permanent employees having service period of 20 years or more.

In order to cover the obligations arising under these schemes, provisions are made on actual basis, in case of staff welfare and staff medical scheme, & on the basis of reasonable estimate in case of gratuity, pension and staff life insurance scheme. In order to comply with the International Accounting Standard the Bank is in the process of determining pension and gratuity liabilities on the basis of actuarial valuation.

(iv) Other payables: This heading mostly includes excess of insurance premium collected from staff relating to house loan, staff loan and vehicle loan for insurance schemes on behalf of staff.

Other Liabilities

(i) Currency in circulation: Section 52 (1) of Nepal Rastra Bank Act, 2002 provides monopoly right to issue bank notes and coins in the kingdom of Nepal, which shall be legal tender in the kingdom of Nepal. Further as per Section 52 (2) "the Bank shall issue notes pursuant to sub-section (1), only against the security, and the liability of such issued notes shall be equal to the value of property kept as security." At least 50 percent of the property to be kept as security shall be one or more of gold, silver, foreign currency, foreign securities, foreign bills of exchange and the remaining percentage shall be one or more of the coins, government bond. Accordingly, more than ninety percent of these liabilities are supported by gold, silver, foreign currency balance held abroad and foreign securities. And for the remaining, back up has been made by government bonds held by the Bank.

(ii) Sundry liabilities: Sundry liabilities include excess of assets over liabilities of projects run by Micro Finance Department, excess of bills lodged over bills collection, sundry creditors, unclaimed, pension payable, NRB general account etc. NRB general account represents NRB inter office transactions, and the year-end balances under reconciliation.

(iii) Surplus payable to HMG/N: This is the appropriation of profit to be transferred to HMG/N revenue account, remained after appropriating the statutory reserve and other reserve as decided by the board of directors.

Equity

The financial interest of owners is called owners' equity. The owners' interest is residual in nature, reflecting the excess of the firm's assets over its liabilities. From the operational result point of view, owners' equity will increase when the firm makes earnings and whole or part of it is retained in the firm. If the firm incurs losses, owners claim will go down.

(i) Capital: Nepal Rastra Bank was established on April 26, 1956 under the NRB Act, 1955 with the capital of Rs.10,000 thousand, wholly owned by HMG/N, to discharge the central banking responsibilities. During the FY 2001/02 Rs. 2.99 billion was capitalized from general reserve and since then capital of the Bank has been increased to Rs. 3 billion.

(ii) Reserve: Reserve comprises the following:

- Statutory reserves (general reserve and monetary liability reserve)
- Capital reserve (gold and silver equalization fund)
- Exchange equalization fund
- Other reserves and funds (such as development fund, banking development fund, development finance project mobilization fund, mechanization fund, scholarship fund, mint development fund, employees' welfare fund, rural self reliance fund).

Reserve funds other than capital reserve (gold and silver equalization fund) represent appropriation out of the profit, which are statutory as well as specific in nature. All the specific funds are created with the approval of the board.

The purpose of creating above reserve and funds are summarized below:

(a) Gold and silver equalization fund: This fund is created to comply with the provision mentioned in Section 41(1) (d) of Nepal Rastra Bank Act, 2002.

(b) General reserve: It is a statutory reserve created and maintained as per the NRB Act, 2002. Section 41(1) (b) of the Act requires that not less than ten percent of the net profit should be transferred to this reserve every year. This reserve may be used only to cover the loss sustained by the Bank. Further contribution is made to this reserve, where additional budgets for fixed assets, loans and advances to the staffs are decided.

(c) Monetary liability reserve: It is also a statutory reserve created and maintained as per the NRB Act, 2002. Section 41(1) (a) of the Act requires that unless five percent of the total monetary liability (Rs.68.150 billion for the year ended 15 July 2004) of the Bank shown in the balance sheet is met, an amount equal to five percent of the net profit should be transferred to this reserve every year. The amount deposited in the monetary liability fund is used only for the purpose of fulfilling the financial liability of the Bank.

(d) Exchange equalization fund: This fund represents opening balance of exchange gains or losses as increased/decreased by appropriation of net exchange gains/losses made during the year.

(e) Development fund: This is the specific fund created in order to provide support for loans and refinances to banks and financial institutions as well as to make investment in the shares and debentures of these institutions.

(f) Banking Development fund: This fund is created to meet the expenses relating to feasibility survey for opening new banks in the priority sector, to provide interest free loans to such banks, to compensate the losses incurred by those banks for specified period and expenses relating to banking promotion, workshop and seminars etc.

(g) Development finance project mobilization fund: This fund is created as a cushion to meet the probable loss on project loan. An amount equivalent to the projects' profit are appropriated and transferred to this fund.

(h) Mechanization fund: The purpose of this fund is to meet the amount required for development and installation of modern technology, computer software, hardware and allied mechanization system.

(i) Scholarship fund: This fund is created as a cushion to meet amount required to develop skilled manpower by way of providing training and higher studies to the employees of the Bank.

(j) Mint development fund: This fund is created to meet the heavy capital expenditure required for construction of factory building and installation of machinery for minting activities.

(k) Employees' welfare fund: This fund is created on FY 1958/59 for the welfare of the employees who have suffered financial and other losses due to unprecedented events and any other reasons.

(l) Rural self-reliance fund: This fund is created as per the NRB Monetary policy to meet the fund required for long term refinancing in tea, cardamom plantation and production as well as construction of cold storage etc. to be disbursed through Grameen Swabalamban Kosh.

Grameen Swabalamban Kosh (Rural self reliance fund different from above) was established as a separate entity on 1st March 1991 to be operated by Micro Finance Department of Nepal Rastra Bank. On 14th March 1991 a Board was formed by cabinet decision under the chairmanship of Deputy Governor of the Bank, assigning all the duties, authorities and responsibilities to the board. Accordingly guidelines in this respect were prepared and issued. On the basis of guidelines so issued all the activities of the GS Kosh (RSRF) has been operating by Micro Finance Department.

Contingent Liabilities

Contingent liabilities in respect of letter of credit (LC) are determined on the basis of LCs remaining un-expired at the balance sheet date after adjusting there from the margin retained by the Bank. Likewise claims not acknowledged as debt consist of legal and other claims pending against the Bank as at close of the year. No provision is made against such claims as the Bank is of the opinion that there will be no claim accruing over the issue and no significant liabilities in respect to these will arise. Counter guarantees are guarantees issued on the basis of guarantees received from corresponding banks.

Income Statement

Income

1. Income from foreign currency financial assets: This comprises interest income from investments in US and Indian government treasury bills; deposits held abroad, SDR holding and commission received on account of currency exchange.

2. Income from local currency financial assets: The major sources under this head are interest income from: - investment in government securities including secondary market transactions, investment in financial and other institutions, overdraft to government, loans and refinances to banks and financial institutions; commission income from government and other services.

3. Other operating income: The sources of income other than above-mentioned income are shown under this head. Income from mint, gain from sale of precious coins, fine/penalty received, profit from sale of investments, dividend income, project income, written back of some provisions and liabilities no longer required and miscellaneous income are the items considered to be the other operating income.

Expenses

1. Expenses on foreign currency financial liabilities: This comprises interest expenses towards SDR allocation, PRGF loan and others, commission expenses and service charges.

2. Expenses on local currency financial liabilities: This represents the interest expenses on secondary market operations and others; commission paid and payable to commercial banks for the operation of government account transactions and others.

3. Other operating expenses: This includes: staff costs, administrative costs, depreciation, directors' fees and expenses, note printing charges, mint expenses, security charges, remittance charges, provision on loans, advances and investments, exchange loss and miscellaneous expenses etc.

Staff costs also include some of the funds created for the welfare of the staffs, some of which are of the nature of retirement fund. They are summarized as follows:

- **Provident fund contribution:** Provident fund was created from the very beginning of the establishment of the Bank. This consists of individual accounts of each staffs. Ten percent of the salary of the staffs is deducted and transferred to this fund. The Bank also contributes a sum of equivalent amount to this fund.
- **Staff welfare provident fund:** This fund also contains individual accounts of each staff. Every year 12 percent of the salary of each staff along with incentive from profit is transferred to this fund. The amount accumulated in this fund is again transferred to Retirement Fund for the purpose of obtaining tax benefit as per Income Tax Act, 2002. This fund was created since FY 1978/79.
- **Pension and gratuity fund:** This fund was created on FY 1978/79, to meet the liability towards pension and gratuity payable to the retired staffs. Every year provision is made to this fund on the basis of reasonable estimate. Effective from FY 2004/05 the Bank is in the process to provide the amount on the basis of actuarial valuation to comply with the International Accounting Standard and to make sure that adequate provision has been made.
- **Staff life insurance fund:** This fund was created on FY 1993/94 as retirement fund to be operated under self-insurance scheme. Every year necessary provision is made on the basis of reasonable estimate considering net present value (NPV) factor. Under the scheme of this fund, the retiring staff, who has completed thirty years of continued service, will be entitled to receive equivalent to five years' current drawn salary. If his year of service is less than 30 years then he will receive the reduced amount proportionately.
- **Staff medical fund:** The NRB permanent staffs are entitled to receive a specified amount as medical benefit. The Bank has maintained individual accounts of all the staffs and every year the amount so specified is transferred to this fund.

Foreign exchange gains/(losses): Exchange differences are accounted under this heading. An amount equivalent to the net exchange gain/loss during the year is transferred to /from exchange equalization fund.

Prior period adjustments: This primarily represents the impact of accounting adjustments made during the year to record certain entries relating to prior year period.

Comprehensive Analysis and Interpretation of NRB Financial Statements

Since inception of the bank on 26 April 1956 under the NRB Act, 1955 there has been significant improvement and enhancement in its financial performance and financial position.

For the purpose of analyzing the activities of Nepal Rastra Bank during last fifty years, total period under review has been broken down into five distinct decades.

First Decade (1956/57- 1965/66)

Profit

In the year of establishment in FY 1956/57, total income and expenditure of NRB recorded at Rs.326 thousand and Rs.321 thousand respectively generating net profit of Rs.5 thousand, which was transferred to HMG/N revenue account by way of appropriation.

At the end of first decade of establishment of Nepal Rastra Bank on FY 1965/66 total income and expenditure increased significantly, which stood at Rs.19,789 thousand and Rs. 4,465 thousand respectively resulting a net profit of Rs.15,324 thousand.

During the first decade, cumulative total income and expenditure amounted to Rs.63,200 thousand and Rs.20,936 thousand respectively generating cumulative net profit of Rs.42,264 thousand. Of the total profit, Rs. 15,000 thousand were transferred to General reserve, Rs.12,500 thousand to development fund, Rs. 5,824 thousand to other funds such as agricultural credit and industrial credit fund and balance Rs.8,940 thousand had been transferred to HMG/N revenue account. Annual average income, expenditure, net profit were recorded at Rs. 6320 thousand, Rs. 2094 thousand and 4226 thousand respectively. Similarly, annual average of profit appropriation to General reserve, development fund, other fund and transferred to HMG/N were Rs. 1500 thousand (35 percent), Rs. 1250 thousand (30 percent), Rs. 582 thousand (14 percent) and Rs.894 thousand (21 percent) respectively.

Total Assets, Liabilities and Equity

Total assets and liabilities of NRB as at mid-July 1957 amounted to Rs. 105,500 thousand. Of the total assets the share of foreign assets and domestic assets were Rs.30,700 thousand (29 percent) and Rs. 74,800 thousand (71 percent) respectively. Of the total liabilities, notes in circulation occupied largest share of Rs. 54,900 thousand (52 percent), deposits and other banking liabilities occupied Rs. 40,600 thousand (38 percent) and equity (capital and reserve fund) occupied Rs. 10,000 thousand (10 percent).

At the end of first decade as at mid-July 1966 total assets and liabilities increased significantly by 470 percent, which amounted to Rs. 601,123 thousand. Of the total assets of NRB the share of foreign assets, including gold and silver, foreign currency, foreign bank balances, foreign securities, and foreign bills were 63 percent. Similarly, the shares of domestic assets, which represent cash balances, loans and advances, investments and other assets were 37 percent. Of the total liabilities the shares of notes in circulation was 58 percent, deposits, bills payable and other liabilities 36 percent and equity 6 percent.

Second Decade (1966/67- 1975/76)

Profit

Cumulative total income and expenditure during the period of second decade amounted to Rs. 670,089 thousand and Rs.186,795 thousand respectively generating cumulative net profit of Rs. 483,294 thousand. The annual average of income, expenditure and net profit were Rs. 67009 thousand, Rs. 18680 thousand and 48329 thousand respectively. Compared to the preceding decade, income, expenditure and net profit were increased significantly by 960 percent, 792 percent, and 1035 percent respectively in this decade.

The main sources of income were interest income, commission, discount and miscellaneous. On the expenditure side, salaries and allowances, security, note-printing expenditure, agency expenditure was the major heading. In this second decade, Rs.320,505 thousand (66 percent of cumulative net profit Rs.483,294 thousand) was allocated as dividend to HMG/N. Similarly, during the decade, profit appropriation to general reserve, development funds and other funds were Rs.29,789 thousand (6 percent), Rs.123,900 thousand (26 percent) and 9100 thousand (2 percent) respectively.

Total Assets, Liabilities and Equity

At the end of second decade as at mid-July 1976 total assets and liabilities increased significantly by 303 percent, which amounted to Rs. 2,422,882 thousand. Of the total assets of NRB the share of foreign assets (including gold and silver), foreign currency, foreign bank balances, foreign securities, and foreign bills were Rs. 1,276,760 thousand (53 percent). Similarly, the shares of local currency assets, which represent cash balances, loans and advances, investments and other assets, were Rs.1,146,122 thousand (47 percent). Of the total liabilities the shares of notes in circulation was Rs. 1,000,000 thousand (41 percent), deposits, bills payable and other liabilities Rs. 1,044,892 thousand (43 percent) and equity Rs.377,990 thousand (16 percent).

Third Decade (1976/77- 1985/86)

Profit

Cumulative total income and expenditure during the third decade amounted to Rs.2,745,752 thousand and Rs.1,003,696 thousand respectively generating net profit of Rs1,742,056 thousand. Annual average of which were Rs. 274,575 thousand, Rs. 100,370 thousand and 174,205 thousand respectively. Compared to the preceding decade, income, expenditure and net profit were increased significantly by 310 percent, 437 percent, and 260 percent respectively in the review decade.

The main sources of income were interest income, commission, discount and miscellaneous. On the expenditure side, salaries and allowances, security, note-printing expenditure, agency expenditure was the major heading. During this third decade, total of Rs.856,750 thousand (49 percent of cumulative net profit Rs.1,742,056 thousand) was allocated as dividend to HMG/N. Similarly, during the decade, profit appropriation to general reserve, development funds and other funds were Rs.142,500 thousand (8 percent), Rs.669,356 thousand (39 percent) and Rs.73,450 thousand (4 percent) respectively.

Total Assets, Liabilities and Equity

At the end of the third decade as at mid-July 1986 total assets and liabilities increased significantly by 367 percent, which amounted to Rs. 11,324,205 thousand. Of the total assets, the share of foreign assets (including gold and silver), foreign currency, foreign bank balances, foreign securities, and foreign bills were Rs. 3,780,844 thousand (33 percent). Similarly, In the case of local currency assets, which represent cash balances, loans and advances, investments and other assets, the share percentage was Rs.7,543,361 thousand (67 percent). Of the total liabilities the shares of notes in circulation was Rs. 5,180,000 thousand (46 percent), deposits, bills payable and other liabilities Rs. 3,496,588 thousand (31 percent) and equity Rs.2,647,617 thousand (23 percent).

Fourth Decade (1986/87- 1995/96)

Profit

Cumulative total income and expenditure during the fourth decade amounted to Rs.16,626,524 thousand and Rs.4,628,299 thousand respectively generating cumulative net profit of Rs 11,998,225 thousand. Annual average of income, expenditure and net profit for the decade were Rs. 1,662,652 thousand, Rs. 462,830 thousand and 1,199,823 thousand respectively. Compared to the preceding decade, income, expenditure and net profit were increased significantly by 506 percent, 361 percent, and 589 percent respectively in this fourth decade.

The main sources of income for this decade also were interest income, commission, discount and miscellaneous and the main headings of expenditures were salaries and allowances, security, note-printing expenditure, agency expenditure. during this decade, Rs.6,438,025 thousand (54 percent of cumulative net profit of Rs.11,998,225 thousand) was allocated as dividend to HMG/N. Similarly, during the decade, profit appropriation to general reserve, development funds and other funds were Rs.1,302,500 thousand (11 percent), Rs.3,346,500 thousand (28 percent) and Rs.911,200 thousand (7 percent) respectively. Other funds represent mainly the staff welfare provident fund and pension and gratuity fund.

Total Assets, Liabilities and Equity

At the end of the fourth decade as at mid-July 1996 total assets and liabilities increased significantly by 450 percent and total amounted to Rs. 62,289,963 thousand. Out of the total assets, the share of foreign assets (including gold and silver), foreign currency, foreign bank balances, foreign securities, and foreign bills were Rs. 34,699,707 thousand (56 percent). Similarly, the shares of local currency assets, which represent cash balances, loans and advances, investments and other assets, were Rs.27,590,256 thousand (44 percent). Of the total liabilities the shares of notes in circulation was Rs. 27,457,210 thousand (44 percent), deposits, bills payable and other liabilities Rs. 18,904,067 thousand (30 percent) and equity Rs.15,928,686 thousand (26 percent).

Fifth Decade (1996/97- 2003/04

Currently, Nepal Rastra Bank is celebrating its Golden Jubilee Year on the historic occasion of 50 years of its establishment.

Profit

Cumulative total income and expenditure during the fifth decade (for the last eight years) amounted to Rs.35,100,167 thousand and Rs.14,078,361 thousand respectively generating cumulative net profit of Rs 21,021,806 thousand. Annual average of income, expenditure and net profit for the above-mentioned period were Rs. 4,387,521 thousand, Rs. 1,759,795 thousand and 2,627,726 thousand respectively. Compared to the preceding decade, income, expenditure and net profit were increased materially by 111 percent, 204 percent, and 75 percent respectively during last eight years. Accounting treatment for exchange differences (gains or losses) is changed during the FY 2003/04 as such differences during the year are taken to the income statement and an equivalent amount so taken in the income statement is transferred to exchange equalization fund instead of previous practice of effecting exchange equalization fund directly. Due to this treatment income has been increased by Rs.1,378,644 thousand during the FY 2003/04 compared to the previous FY 2002/03.

The main sources of income for the period are interest income, commission, discount and miscellaneous and on expenditure side, salaries and allowances, security, note-printing expenditure, agency expenditure. In the review decade Rs.12,920,027 thousand (61 percent of cumulative net profit of Rs.21,021,806 thousand) was allocated as dividend to HMG/N. Similarly, during the decade, profit appropriation to general reserve, development funds and other funds were Rs.2,947,400 thousand (14 percent), Rs.2,552,534 thousand (13 percent) and Rs.2,601,845 thousand (12 percent) respectively. Other funds represent mainly the staff welfare provident fund and pension and gratuity fund.

Total Assets, Liabilities and Equity

Compared to mid July 1996, total assets and liabilities as at mid-July 2004 increased significantly by 218 percent, which amounted to Rs. 142,388,993 thousand. Of the total assets, the share of foreign assets, including gold and silver reserve, foreign currency, foreign bank balances, foreign securities, and foreign bills were Rs. 109,539,559 thousand (77 percent). Similarly, the shares of local currency assets, which represent cash balances, loans and advances, investments and other assets, were Rs. 34,140,501 thousand (23 percent). Out of the total liabilities the shares of notes in circulation was Rs. 68150000 thousand (48 percent), deposits, bills payable and other liabilities Rs. 42,245,025 thousand (30 percent) and equity Rs.31,993,968 thousand (22 percent).

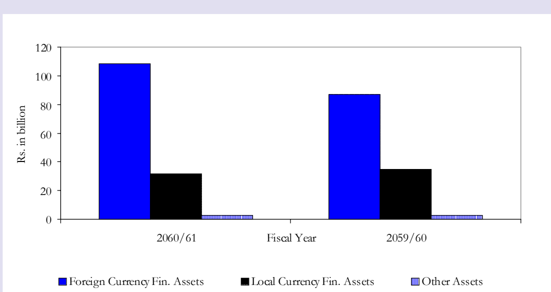
Sources and Application of Financial Resources of the Bank

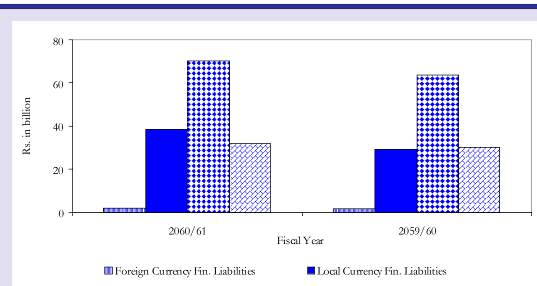
(For Last Two audited Years)

Major sources and utilization of funds of the bank for last two audited years is as follows:

Rs'000

Assets	**2060/61**	**%**	**2059/60**	**%**
Foreign Currency Fin. Assets	108,248,492	76.02	87,077,475	69.70
Local Currency Fin. Assets	31,829,969	22.35	35,242,413	28.21
Other Assets	2,310,532	1.62	2,617,211	2.09
Total	**142,388,993**	**100.00**	**124,937,099**	**100.0**
Liabilities	**2060/61**	**%**	**2059/60**	**%**
Foreign Currency Fin. Liabilities	2,068,181	1.45	1,596,089	1.28
Local Currency Fin. Liabilities	38,324,179	26.92	29,221,655	23.39
Other Liabilities	70,002,665	49.16	63,875,902	51.13
Equity	31,993,968	22.47	30,243,451	24.21
Total	**142,388,993**	**100.00**	**124,937,097**	**100.00**





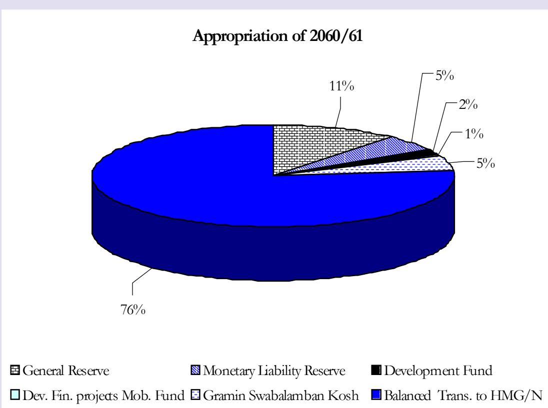
During the last two audited years, the total mobilization of fund has been increased by 13.96% and the total figure has reached to Rs142.39 billion. Major contribution for the resource side is from 'Other Liabilities' and 'Local Currency Financial Liabilities and major application of the fund is to 'Foreign Currency Financial Assets' and to 'Local Currency Financial Assets'. The percentage share of investment in foreign currency financial assets has increased in the last year (FY 2060/61) comparing to previous year (FY 2059/ 60).

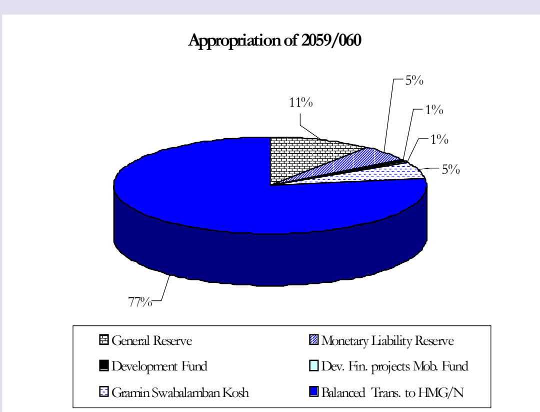
Appropriation of Net Income

(For last two audited years)

Rs '000

Appropriation	2060/61	%	2059/60	%
General Reserve	178,400	11.35	149,500	10.52
Monetary Liability Reserve	78,600	5.00	74,800	5.26
Development Fund	27,100	1.72	11,543	0.81
Dev. Fin. projects Mob. Fund	9,173	0.58	10,300	0.72
Gramin Swabalamban Kosh	78,600	5.00	74,800	5.26
Balanced Trans. to HMG/N	1,200,027	76.34	1,100,000	77.41
Total	**1,571,900**	**100.00**	**1,420,943**	**100.00**





Out of the total fund of Rs1,571,900 thousand available for appropriation in the FY 2060/ 61, bank has appropriated Rs1,200,027 thousand to the government, which comes to be 76.34% of the total available figure. In the previous year, the total contribution to the government was Rs. 1,100,000 thousand (77.41%)

Key Financial Ratios

(For Last Two Audited Years)

Some of the major analytical tools for financial statement have indicated following situation of the bank:

Liquidity:

$$\text{Current Ratio} = \frac{\text{Current Assets (Assets bearing maturity of up to 1 year)}}{\text{Current Liabilities (Liabilities having maturity of up to 1 year)}}$$

FY 2059/60	FY2060/61
N/A	1.20

Brief Indication

Bank is in comfortable position to meet obligation arising out of liabilities having maturity of 1 year or less.

Asset Management

Total Assets Turnover = Gross Income/Total Assets

FY 2059/60	FY2060/61
0.0358	0.0312

Brief Indication

The ratio between gross income and total assets is fairly low mainly because of heavy amount of total assets portfolio.

Debt Managemen

$$\text{Debt Ratio} = \frac{\text{Total Interest Bearing Liabilities}}{\text{Total Assets}}$$

FY 2059/60	FY2060/61
N/A	0.0257

Brief Indication

The percentage total of total interest bearing liabilities in comparison to total assets is almost negligible.

Profitability

$$\text{Return on Total Assets (ROA)} = \frac{\text{Net Profit for the Year}}{\text{Total Assets}}$$

FY 2059/60	FY2060/61
1.14%	1.10%

Brief Indication

Though the volume of total net profit has gone up 10.63%, lesser percentage of net profit has been accounted for the last year.

Return on Equity (ROE) = Appropriation made to General Reserve plus the balance amount transferred to Government/Equity Fund

FY 2059/60	FY2060/61
4.13%	4.31%

Brief Indication

The stakeholder has received increased percentage of return of 4.31% during last audited year.

Major Problems and Challenges

From the financial, accounting and related operational perspective, Nepal Rastra Bank is facing the following problems:

- **System**: In most of the areas, such as in MIS system, internal control, internal audit and corporate governance the proper system has not yet been developed.
- **People**: Although most of the employees have long service record, yet professional and technical expertise is not up to international standard.
- **Equipment**: Information systems, hardware and software are not in tune with strenuous requirements of a Central Bank.
- **Concept**: Certain conceptual issues relating to- accrual accounting, measurement, valuation of assets and liabilities, account reconciliation, taxation matters etc have not been carried out.

Some of the major issues identified in respect of NRB financial management have been categorized as follows:

- **Presentation and disclosure:** More transparent presentation and disclosure in financial statement is required in the area of compliance with accounting standards, quality of assets, classification of assets and liabilities and income and expenditure, composition of foreign currency assets and liabilities, local currency assets and liabilities, maturity profile of assets and liabilities etc.
- **Recognition and measurement:** The compliance requirement of International Accounting Standards (IAS) in respect of recognition of income, expenses, assets and liabilities, provisioning based on objective assessment are still outstanding as major issues.
- **Valuation and estimation:** Some of the issues to be systematically carried out in this area are: - year-end adjustments, accruals, estimation of liabilities, actuarial valuation of retirement benefits scheme, fair valuation of financial assets and financial liabilities etc.
- **Systems, control, procedures, records and details:** completeness, correctness, existence and quality of relevant transactions; documentation with respect to physical verification of various assets evidencing the existence and quality of assets, procedural weaknesses in the operations are some of the issues to be handled.
- **Compliances:** Some of the provisions of the NRB Act, 2002 have not yet been fully considered and therefore, remained to be a major issue.

In the exclusive context of Nepal Rastra Bank, the above-mentioned problems and challenges may further be stated as below:

Compliance with International Accounting Standards/IFRS

Nepal Rastra Bank is continually striving to adhere and comply the requirements of IAS. The NRB Act itself has also provided that the bank will follow the international accounting practices. Though lots of issues are already addressed in this regard, but still many more are to be covered. Consultants from abroad and international auditors have also pointed out this focal area specially. There are certain areas where the requirement could not be fulfilled because of the legal or technical ground. It is now decided that a special task force will be formed to look into these requirement issues.

Need of Integrated and Independent Accounting Package

Financial Management Department (FMD) has been preparing financial statements based on general program as available in computer. The computerization process in the department is not complete. Information is available through net working but they are further processed on separate spreadsheet. Even minor modification etc needs to go through Information Technology Department (ITD). Consequently, FMD is dependent to other department for its own exclusive job. There is urgent need of complete and integrated accounting package for the department.

Continuos Up-gradation of Accounting Manual

The present accounting manual, which the department has, was prepared around 4 years ago. So many changes in the practical field have since been taken place and it is felt necessary now that there should be continuous revision and updating in this manual. It is noticed that some of the accounting heads are just become redundant and some new accounting heads are urgently required. The process of updating of manual requires involvement of expert individuals and also requires adjustments on IT networking. This particular issue is also therefore needs special attention to be taken care of.

Lack of Trained Manpower

Accounting is specialized issue and needs special expertise and professional knowledge. Continuous orientation and training in this particular profession is utmost required. Some professional staff are recently places at the FMD. However, most of the other staffs are to be given extensive and suitable training. The more exposure there is, the more advantageous it would be for the department and thereby for the organization. Perfect coordination with other concerned departments is required to launch extensive training program.

Co-Operation from Other Accounting Centers

The final preparation of financial statements requires supply of information from various designated locations. Non-availability of information even from one of the accounting centers hinders the complete process of compilation of accounting figures. On other hand, such financial statements are to be prepared in time bound manner. People either do not understand the urgency or simply undermine the situation. Some of other people do comply with timing requirements but the information supplied is found to be incomplete or incorrect. All such circumstances have led to late preparation of financial statements and thus have affected overall efficiency of the department.

Corrective Actions to manage the Challenges

The department has initiated following corrective actions to manage the challenges being faced by it:

- **Recommendations from international experts:** Frequent visits are being made by experts and special auditors in the department in connection with compliance of accounting standards. Department will seriously endeavor to incorporate the suggestions received from such international experts and auditors.
- **Coordination with IT Department:** For implementing an integrated accounting package, continuous coordination and consultation with IT Department will be carried out. Being a highly technical issue, there will be a special team representing all concerned departments along with experts as and when necessary.
- **Upgrading of accounting manual:** Upgrading accounting manual is a continuous process. It requires high level of expertise and commitments. It is already decided that this special function will be carried out through special task force formed within department and few other experts within the bank. Department will also welcome the outside expertise on the subject.
- **Help of Expert Committee:** Department has got privilege of having expert advice from team of expert professionals within and outside the department of the bank. The team is available as and when department has requested for advice on the conflicting and complicated issues. The expert advice from the committee would be of great help to resolve any upcoming challenges.
- **Orientation tour to concerned accounting centers/offices:** Visiting of accounting centers/ offices would always be of great advantageous to understand the real problems being faced on the ground level. It will also help to clear confusion on the spot itself and instantly too. Considering these facts, the department has incorporated program of visiting to related offices at least once in the year and interact with the concerned staffs for instant solution of the accounting problem.
- **Developing follow up measures for timely compilation of accounting records:** It is noticed that all accounting centers remain extremely busy at the time of financial closing. They have to prepare and timely submit loads of financial and other information at around same time. To avoid the jamming situation at the financial closing and get all required data on timely basis, the department has arranged for the regular follow

up and monitoring system. Department will issue reminder notice on regular basis to all concerned and will have timely preparation of financial statements.

Future Agenda

The financial management of Nepal Rastra Bank has always remained a great challenge to all concerned. Huge amount of responsibility is attached with the management of financial resources of the bank. Whereas compliance and transparency is to be maintained in the preparation and presentation of the financial statements, practical difficulties and technical reasons also need to be addressed. Considering all core aspects of the subject, the overall future agenda of the bank is founded upon the main objective of ensuring effective, efficient and modern financial management system in the bank. To attain such comprehensive goal, major strategies like adhering prudent policies and practices on management of financial resources, ensuring compliance with International Financial Reporting Standards (IFRS), developing integrated and independent accounting package, ensuring transparent and accountable financial discipline etc are ahead to consider.

Conclusion

Management of financial resources of an institution is comprehensive issue. Almost all managerial decisions do have financial impact and in that sense constructive involvement and positive support of all concerned is indispensable for managing the financial resources successfully. Efficient, effective, disciplined and transparent financial system is prerequisite for organizational health and growth. Smooth functioning of an organization could be guaranteed only with proper and working financial system in place.

Financially, Nepal Rastra Bank has come long way since its inception 50 years ago. Financial figures have grown up tremendously and the capital base including of reserves have reached almost Rs 32 billions. Its total asset base is running around hundreds of billions of Rupees. Being a central bank of the country and banker to the government, it is entrusted with the government treasury and in the recent years, it has also been able to contribute to government exchequer billions of Rupees annually. Substantial amount is being allocated for the welfare and development of human resources in the organization.

Problems and challenges for effective implementation of proper financial system will always be there. Basic vision and mission of managerial issue of financial resources should not be blurred by those problems. In fact, many of those challenges could just be translated into opportunities. Bank has already initiated some preliminary exercises and adopted rectifying measures for bringing the issue on the track. On the happy and auspicious occasion of 50 years of establishment, it can be reasonably be expected that there will be a desired level of financial system in place.

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Nepal Rastra Bank Act 2002

Audited Financial Statements of Nepal Rastra Bank(1956 to 2004)

Information Technology

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Introduction

Mr. Karki

Mr. Manandhar

Information technology (IT) may be defined as the automation of processes, controls, and information production using computers, telecommunications, software, and ancillary equipments. In other words, IT is a term that covers all forms of technology used to create, store, transmit, interpret, and manipulate information in its various forms. Today, the rapid developments in Communication Technology and its wide spread acceptance in IT sector has made communication technology an integral part of IT, thus giving rise to the concept of Information and Communication Technology (ICT). ICT products and services have enabled firms, organizations, and individuals to conduct their business transactions more efficiently and more rapidly.

ICT is one of the fastest growing fields in the world and has found its place in almost all fields. Therefore, it has become a way of life for everybody and, in effect, has taken deep roots in the society. Not only ICT infrastructure has changed rapidly over the past decade, but also its cost of ownership has decreased very fast.

Banking industry is one of the foremost users of IT. Technological innovation in general, and IT applications in particular, have had a major effect in banking. IT has helped banks to enhance operational efficiency, intensify business and provide better customer service with reduced cost of operations. With the advances in IT, the nature of banking has also changed and banks are able to serve customers outside the bank's hall. Furthermore, electronic banking is becoming more popular day by day.

Information Technology gives value benefits to central banks. It provides online access to data on financial markets and sophisticated mechanism to analyze information for decision and policymaking. It enables coordinated action across banks and financial institutions being supervised. It can also facilitate improvement of currency management function, monitoring effectiveness of monetary policy initiatives, effective open market operations and better banking service to the government.

Nepalese banking industry, in general, is a late adopter of modern IT infrastructure. Although the new private and joint venture banks are reasonably using IT to enhance their businesses since their inception, the two oldest commercial banks of Nepal, which still holds major share of banking business, are lagging far behind in applying IT. Similarly, Nepal Rastra Bank (NRB) has also not been able to reap the full benefits of IT compared to central banks in other parts of the globe.

This article discusses the development of IT and its adoption in banking industry from an historical perspective. As electronic banking is becoming more popular today, various products and services of electronic banking that are very common in the market place are also briefly described in this article. Moreover, the article reviews the existing IT infrastructure at Nepal Rastra Bank and points out future needs. Finally, this article depicts anticipated major outputs of ongoing IT reengineering project in the Bank.

Historical Development of Information Technology[1]

Whether we knew it as computers or not, computing devices were known to mankind since the prehistoric era. The Greeks used pebbles and stones for counting and simple arithmetic several centuries before Christ. The Babylonians had invented abacus in 3000 BC, and the Chinese were known to use them extensively. But, more obvious computing device did not appear before complex mathematical operations were defined. One of the first computing device was the Napier Bones, devised by John Napier in 1612, to aid in the calculation of logarithm and multiplication. The first known design of a mechanical calculator is attritubed to Prof. Wilhelm Schickard in 1623. Because no proof exists that it was built, the Pascaline, built by Blaisé Pascal in 1642 is considered the first automatic adding machine.

In 1822, Charles Babbage built his famous Difference Engine which was operated by punched cards similar to the ones developed by Joseph-Marie Jacquard for programmable looms, and printed the results in paper. Later in 1834, Babbage designed a completely different machine with faster performance and more possibilities than the Difference Engine and called it the Analytical Engine. It was one of the first designs that had four basic units: the Input Unit, the Arithmetic and Logic Unit (ALU), the Central controller and the Output Unit. All of these units are still used in modern computers. Though Babbage never completed his Analytical Engine, he laid foundation to modern day general purpose digital computers and hence earned the title "Father of Computers". Lady Ada Augusta Lovelace, working with Babbage, described the future possibilities of a computer along with a program to calculate Bernoulli numbers a mathematical irregular sequence used mostly to calculate the sum of squares of whole numbers, and thus she is regarded as the first computer programmer.

Simultaneous to development of computers, telecommunications also saw a lot of research. Trans-Atlantic telegraph was already operational by 1856. Alexander Graham Bell patented telephone in 1876. Telephone communication became so popular that within a decade, AT&T started its own private telephone service and by 1896, automatic switching equipments and dial telephones were operational.

To crack the code of the German enciphering and deciphering machine called Enigma, British Secret Service hired a team of scientists to build a machine in 1939. Upon completion in 1943, it was christened COLOSSUS . But because the project was classified until recently, the first electronic computer was considered to be ENIAC (Electronic Numerical Integrator and Computer). It was developed in 1946 for the US Army to compute the trajectory tables for their guns and used vacuum tube technology that was invented and patented in 1904.

At AT&T Bell labs, the transistor was invented by Walter Brattain, William Shockley and John Bardeen in 1947, for which earned them their Nobel Prize in 1956. Development of the transistor led to invention of Integrated Circuits (IC). This development resulted in very rapid growth in the Information and Communication Sector. Advanced Research Projects Agency (ARPA) of US Department of Defense understood the importance of communication during wartime, and financed an experimental Wide Area Network (WAN) setup called ARPAnet in 1966. This network was designed to survive a nuclear attack and provide un-interrupted communication lines, even if part of network went down. The initial ARPAnet setup was completed in 1969 consisted of four computer systems in University of California in Santa Barbara, University of California in Los Angeles, University of Utah in Salt Lake City, and Stanford Research Institute. For next 20 years a host of experiments went on this network, primarily by universities and research organizations, but was not available to the public. Many of these research resulted in high value products like E-mail (developed in 1972). To fulfill ARPAnet's design goal of having many systems with mutually incompatible architecture talking with one another, work started on Transmission Control Protocol (TCP), to ensure flawless communications without the use of any Intermediary Message Processors (IMP). In 1978, Xerox Corporation implemented the Internet Protocol (IP). Since then, the protocol suite has been known as TCP/IP, although many other protocols also run on the same network.

Ted Codd, at International Business Machines (IBM), described the Theory of Relational Database Management System (RDBMS) in 1970. But the first computer based Database Management System (DBMS) was Integrated Data Store (IDS), developed by General Electric (GE) in 1959 that became the basis for Network Data Model. Likewise IBM had Information Management System (IMS) which was the basis for Hierarchical Database Model. After Codd's work, several query languages started to appear, notable among them are SQUARE, SEQUEL (SQL), QBE and QUEL. In the 1980's, commercial RDBMS like Oracle, DB2, Sybase, Informix etc. and DBMS for personal computers like Dbase and Paradox started emerced. The 1990's saw first Object Oriented DBMS, as well as possibility of using Massively Parallel Processing systems.

In 1971, Intel released 4004 processor and was soon replaced by Intel 8008 microprocessor. By 1974, IBM had introduced 8080. It could address 64 KB memory addresses and had 6000 transistors. The following year, Intel introduced 8088 processor. It was very similar to 8086, except that it had a 32 bit internal data bus width. An entirely new 32 bit processor in the form of Intel 80386 was announced in 1985. Later in 1993, Intel introduced the first of its Pentium class processor: the Intel Pentium processor. This processor was succeeded by Pentium II, Pentium III and Pentium IV processors for Desktop and Pentium Pro, Pentium II Xeon, Pentium III Xeon and Xeon processor for Servers.

The year 1975 saw the foundation of Microsoft Incorporated by Bill Gates and Paul Allen. This was later renamed as Microsoft Corporation, it had bought QDOS and released it as Microsoft Disk Operating System (MSDOS). In 1985, it released Windows 1.0. Windows 3.0, released in 1990, was the first Operating System (OS) from Microsoft, to work on both Intel 80286 and 80386 processor. In 1995, Microsoft released a completely new operating system – Microsoft Windows 95. With this OS, Microsoft left the line of text-based OS to and moved graphical OS. This family of OS continued with MS Windows 98 and Windows ME. Around 2001, Microsoft released Windows 2000 that was based on Windows NT, and later replaced by Windows XP. Apart from OS, Microsoft has a range of software including Office packages, Programming tools and System tools among other software.

In 1981, IBM released IBM PC with 4.77 MHz 8 bit 8088 processor, 64 KB RAM, 40 KB ROM and one 5.25 inch Floppy disk with 160 KB capacity. In 1976 Seymour Cray released Cray 1, the first commercial supercomputer to break 1 MIPS. IBM later created Deep Blue, the first supercomputer to defeat a chess Grand Master.

After ARPA and National Science Foundation (NSF) successfully developed a crash proof network named NSFNET in 1989 and all ARPA sites of ARPAnet were transferred to NSFNET, ARPAnet was reinvented as Internet. It's primarily use was for scientific research and communication between the scientists and professors. One of those scientists, Tim Berners Lee, of CERN, the high energy physics lab in Switzerland, developed hypertext markup language (HTML) to help with the distributed nature of this information. This language enabled non-linear document navigation and ensured ease of retrieval. A year later, World Wide Web (WWW) was officially announced. .

One of the milestones in the development of this network is the release in 1991 of a free operating system conforming to UNIX standards called Linux by Linus Torvalds. His little personal project gained global momentum and with contributions by many across the globe, it became one of the most successful Operating System.

The last decade of 20th century saw an explosive growth in the usage of computing devices. The cut-throat competition between PC manufacturers, reduction in size and cost, the Internet boom etc. contributed to high penetration of PC's. Many aspects of life were digitized. This development in technology and price-war has certainly helped the consumer, with ever more powerful devices released at ever cheaper price.

Most of the computing technologies in late 1990's were direct derivative of technology of the 1970's and 1980's. Because of the technological and financial restriction, the computers of those days stored only the last two digits of year. As the year 2000 arrived, people started worrying that computers would transit from 31 December 1999, 23:59 to 1 January 1900, 00:00. All calculations involving time would be off by a century and there was a high probability that the whole economy could go down. This became famous as the Millennium Bug or the Y2K bug. But because companies and governments took adequate measures, no serious accidents occurred.

Information Technology in Banking Industry: a historical review[2]

Banking has come a long way from the time of ledger cards to today's electronic systems which handle their daily tasks of information retrieval, storage and processing. Computer has been an established tool for achieving a competitive edge and optimal resource allocation for banks. This section of the article summarizes the IT-based innovations in banking industry from a historical perspective and highlights on electronic banking.

The adoption of technology in the banking industry had begun with the introduction of telecommunications into banking market in 1846 when the telegraph reduced stock price differentials between New York and regional stock markets. But the methods of conducting transactions between customers and bank remained largely the same.

During the late 1930s, the tabulating and punch-hole 'accounting' machines started to be used. However, the potential of these machines as mechanisms for recording and updating transactions were not fully exploited until after the late 1940s and early 1950s.

In the late 1950s to the late 1960s, banks started to introduce computers, mostly IBM, Xerox and Burroughs (later Univac and Unisys) machines, to keep up with the growth in business volume and to automate existing practices of specific departments. Manufacturers responded quickly to the demand for hardware but failed to make much concession to users' software requirements and forced user organizations to develop their own system until high-level programming languages emerged.

The typical financial sector computer installation of the time consisted of a central mainframe dedicated to sequential batch processing of computer readable instructions dealing with separate processes. Computer applications were therefore concentrated on back-office operations. During this period, the first IT applications in the bank-client transactions were introduced. Enhanced computer power allowed banks to process the growing volume of paper-based transactions in central locations.

During 1965 to 1980, advances in ICT made banks one of the world's dominant customers for computer hardware and software. The first Automated Teller Machine (ATM) was introduced by Barclays Bank (UK) in 1967, while IBM introduced the magnetic stripe plastic cards in 1969. Together, these innovations marked the birth of electronic banking.

Management Information Systems (MIS) was also introduced during this period. These systems initially aimed to use the computational power of transaction-processing capabilities to provide regular reports and analyses of business activity. MIS offered managers of banks the possibility to increase the scope for monitoring, controlling and planning of operational procedures.

The period from 1980 onwards can be taken as the diffusion period of the information revolution in banking industry. This period saw the spread, within organized markets, of new and powerful applications which developed to handle the security required by high-volume payments. IT-related change became critical to support unprecedented increase in the speed, quantity and quality of information about cross-border transactions in organized markets. During the diffusion period, the information revolution in commercial banking saw the spread of IT to all aspects of banks' internal organization and market relationships due to the introduction of personal computers (PCs) in clerical and managerial roles. During this period, consumer-oriented innovations were widespread as IT provided support to all transactions between customers and banks. PCs offered a flexible way of providing and enhancing electronic resources for a wide range of applications while packaged software reduced in-house resources required for the development of general application systems.

The technical innovations on banks have greatly helped enhance distribution capabilities. Branch network has been reduced due to point-of-sale and ATMs for financial services, facilitated by the advent of digital communications technologies. Card technology evolved to provide individual customers with borderless services. Moreover, many new electronic distribution channels allowed banks to supply more services at lower cost. IT developments now have augmented the range of financial services and product availability.

Today, IT is considered as an imperative tool for banking industry, irrespective of the initial investment and subsequent recurrent costs. Banks are required to handle huge amount of information on a daily basis. On the customer's side, cash is withdrawn or deposited, cheques are deposited or cleared, statement of accounts are produced, etc. At the same time, banks need up-to-date information on accounts, credit facilities, interest, deposits, charges, income, profitability indices and other financial control information. IT in general, and computers in particular, can help meet this information need. Furthermore, IT could help to enhance operational efficiency, provide improved customer service, achieve accurate and timely bookkeeping and institute improved controls and accountability. The introduction of computer based MIS minimizes staffing requirements. Financial analysis and statistical research, including modeling of portfolios and securities, formulation of investment approaches, and market trend analysis, can be undertaken with much greater efficiency and speed through the usage of IT.

The effectiveness of IT is dependent upon proper investment and effective management of IT infrastructure such as hardware, software, networking etc. Banking software can also be described as the heart and soul of a bank's IT infrastructure. Nevertheless, having a good banking software may be of little value if hardware is inadequate to meet needs. Likewise, networking is also equally important.

This article does not attempt to describe the finest IT infrastructure (various hardware, software, networking, communications solutions) suited for the effective automation of banking business. However, realizing the fact that electronic banking, today, is fundamentally changing the banking industry worldwide, an attempt is made here to elucidate electronic banking briefly.

Electronic Banking

Electronic banking (E-banking) means providing banking products and services through electronic delivery channel. E-banking, also known as Electronic Fund Transfer (EFT), uses computer and electronic technology as a substitute for cheques and other paper transactions. E-banking enables a dramatic lowering of transaction costs, and creation of new types of banking opportunities that address the barriers of time and distance.

E-banking encompasses a broad range of established and emerging technologies. Some are "front end" products and services that consumers opt for; others are "back end" technologies used by financial institutions, merchants, and other service providers to process transactions.

E-banking has become a necessary survival tool for banks snce the banking industry now exists in a global village. No country today has a choice whether to implement e-banking or not, given the global and competitive nature of the economy. The banks, therefore, must strive to provide local and global banking services using the infrastructure of the global village.

There are a large variety of e-banking products and services available in the marketplace. E-banking technologies are continuing to evolve and are becoming ever more popular today. The most common such products and services are described below.

Consumer Electronic Banking

Automated Teller Machine (ATM): ATM is an electronic terminal provided by financial institutions that permits consumers to withdraw cash from their bank accounts, make deposits, check balances, and transfer funds. Consumers use ATMs not only at their local banks, but also at other locations in their neighborhoods and throughout the world.

EFTPOS (Electronic Funds Transfer at the Point of Sale): This refers to the use of payment cards at point of sale where money is transferred instantaneously from customer's bank account to the retailer's account.

Telephone banking: The main methods used in telephone banking are voice response, voice recognition and programmable telephone. The facilities available in telephone banking generally include account inquiry, payment of bills, funds management, message service and transfer of funds etc.

Computer banking: Using computer banking, consumers can access their bank accounts to transfer funds, pay bills, check account balances, review account statements, and conduct other banking business, such as ordering checks and issuing stop payment orders. Early forms of computer banking involved dial-up connections directly with a bank's computer; now nearly all computer banking is based on Internet connections. Consumers may be able to make electronic fund transfers from either their bank's computer banking program or their financial service's web site.

Corporate Electronic Banking

Financial EDI: Electronic Data Interchange (EDI) enables entities to transmit data in a standard format, relating to a number of message categories, such as orders, invoices, customs documents, remittance advices and payments. Any movement of funds initiated by EDI is reflected in payment instructions flowing through the banking system. An example of EDI is Netting Arrangements in which only net settlements are made, typically once a day. To, illustrate, if Company A owes Company B $ 100 thousand whereas B owes A say $ 200 thousand, then the net flow is $ 100 thousand from B to A.

Interbank Electronic Banking

SWIFT: Based in Belgium, Society for Worldwide Interbank Financial Telecommunication (SWIFT) is a cooperative organization created and owned by banks that operates the network and facilitates the exchange of payment and other financial messages between financial institutions throughout the world. Though it was initially created for banks, the network is now available to approved categories of non-bank institutions (securities brokers and dealers, clearing and depository institutions and recognized exchanges for securities) as well.

Products (Plastic Cards)

Smart card: A type of stored-value card in which microprocessors chips, embedded in the card, store data and perform limited calculations and processing (to validate personal identification numbers, authorize purchases, verify account balances, and store personal records). The chip physically stores records, such as value of funds remaining on the card.

Contact Smart Cards are swiped through a point-of-sale equipment while contact-less Smart Card communicate through RF signals. The main areas in which Smart Cards are used as debit/credit cards are electronic purse, electronic cheques etc.

Credit/Debit card: A card that enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest is charged on the amount of any extended credit and the holder is sometimes charged an annual fee. A debit card is very similar to a credit card except that debit cards do not extend any credit and all expenses through debit card is debited from bank account.

Stored-value card: A card on which monetary value is stored, through either prepayment by a consumer or deposit by some entity. For a single-purpose stored value card, card issuer and acceptor are generally the same, and funds on the card represent prepayment for specific goods and services (for example, a phone card) and is generally restricted to well identified points of sale within a given location (for example, vending machines at a university, etc.). A multi-purpose card can be used at several service providers for a wide range of purposes; it may carry logo of interbank network.

Amongst e-banking products and services some are tied to consumer bank accounts (e.g. ATM or debit card) and others have stored monetary value (e.g. prepaid cards, payroll cards, college and military cards etc.).

Like other banking businesses, e-banking is not a risk free business. Money laundering, an age-old criminal activity, has been greatly facilitated by e-banking because of the anonymity it affords. The reliance on new technology for services makes security and system availability the central operational risk of e-banking. Security threats like breach of privacy, alteration of data and other IT frauds can come from inside or outside the system. Therefore, banking regulators and supervisors need to ensure that banks have appropriate practices in place to guarantee the confidentiality of data, as well as the integrity of the system.

The advances in information and communication technologies (ICT) in the past have had a big impact on the nature of banking. IT has facilitated the banking sector to enhance operational efficiency and offer wide range of financial products and services. Nevertheless, Nepalese-banking industry, in general, is lagging in effective adoption of modern IT applications in its business.

IT adoptions in Nepal Rastra Bank

There is unavailability of authentic documentation that confirms when computer first entered into Nepal. Reportedly, the first computer to enter the Kingdom of Nepal was an IBM 1401 computer system which was installed at the Central Bureau of Statistics of His Majesty's Government of Nepal (HMG/N) to process data of National Population Census, 1970. The computer remained instrumental in expeditiously completing the data processing job of the census. Realizing the importance of having such a computer, Nepal Rastra Bank (NRB) requested the Bureau to use their computer to assist in processing the data of the First Family Budget Survey (1973-75). In 1982, the Bank introduced its own mini computer – OHIO SCIENTIFIC, which allowed upto sixteen people to work simultaneously. Initially, this computer was placed at the Bank's Research Department. In 1985, the Bank established Computer Section under the Research Department primarily for processing statistical data and of Second Family Budget Survey (March 1984 - February 1985). In September 1992 the computer section was upgraded to a division under the Personnel Administration Department. Since then the computerization process of the Bank commenced in a systematic manner and PCs became more common. In June 1999, the Computer Division was upgraded to departmental level and named the Information Technology Department (ITD). Since then, ITD has been actively involved in developing new software applications, supporting existing applications, maintaining and repairing computers and related equipments, managing Local Area Network (LAN), Internet/Intranet, addressing connectivity issues between district offices and central office, designing and updating bank's official website and reviewing and improving IT systems of the bank. Admittedly, the pace of timely upgrade of computer system (particularly the applications software) in the Bank is very slow due to some inherent problems.

The existing IT infrastructures at the Bank are described below.

Existing Software Systems

All the software applications currently used by the Bank are in-house developed. At the moment, 30 stand-alone software applications are used with additional software in the process of being developed. Most of these software are developed in dBase IV, with a few being in Visual Basic 6.0 and Visual Basic.NET

The existing software systems can be categorized into: (i) Central Bank operations and Statistical Systems; (ii) Internal Management Systems and Financial Institutions Compliance; (iii) and Performance Monitoring Systems Groups. A short description of each system is presented below.

Central Bank Operations and Statistical Systems

Banking System for Kahmandu Banking Office and Banking systems for district offices: This system takes care of banking functions in the Bank offices. For the purpose of signature verification, 'SIGNAT' system is used.

Clearing House System: This system is developed for settling the cheques produced by different commercial banks.

Central Accounting System: This system compiles HMG/N's revenues and expenses data collected from both NRB offices and the designated commercial banks, and generate reports.

LC System: This system keeps a record of LCs opened by importers in the different commercial banks. The data related to the LCs is collected and compiled by the ITD with a copy being sent to the Department of Commerce of HMG/N.

Balance of Payment (BOP) Trade (Trade Statistics System): The export and import statistics based on data received from custom offices are maintained in this system. It calculates trade surplus or deficit position (current situation and trend analysis) of the country. It also shows the direction of trade in form of export/import both to/from India and other countries.

BOP System: This system keeps account and generates reports of Indian and other foreign currency transactions, in Nepali Rupees equivalent, of financial institutions.

Urban Consumer Price Index System: The district offices use data collection module to enter collected price data and send them to the Price Division of the Research Department. The Price Division uses computation module to compute the National Urban Consumer Price Index and the National Urban Wholesale price Index.

System for Foreign Currency Exchanged by Nepalese Students: This system maintains record of students applying for foreign currency exchange.

Public Debt Management System: This system keeps records of all the individuals buying issued bonds along with interest they receive. Public Debt Management Department, through an initiative with the Asian Development Bank (ADB), has also embarked on a separate initiative to use a new COTS (Commercial Off The Shelf) software application called CSDRMS (Commonwealth Securities Data Reporting Management System), which is an Oracle based system.

Currency Management System: This system is used for daily management of all the accounts representing the stock of bank notes in vault, accounts of transaction of notes, accounts of notes in circulation and accounts of defective or old notes being burned.

Internal Management System

Payroll System: This system keeps information of monthly remuneration of all the employees of NRB, as well as preparation of the pay-slips, pay-charts and deduction list etc. The system is linked to Accounting and Banking systems.

Pension System: This system keeps information of pensioners of NRB. It generates eligible pensioner list every month along with their pension amounts.

Staff Provident Fund System & Staff Welfare Provident Fund System: These systems were designed to keep records and generate statements regarding staff provident fund and staff welfare provident fund and have been assimilated to a single system called the Retirement Fund System.

Insured Loan Recording System: This system keeps track of the insured loan statistics of the NRB employees and generates various reports.

Accounting System for Central Office: This system is the default General Ledger and Internal Management Information System for NRB and keeps track of about 120 ledgers organized into ten different groups. The Balance Sheet Section of the Financial Management Department uses this system to generate daily trial balances and supplementary statements.

Balance Sheet System: This system produces a merged balance sheet of NRB. The Balance Sheet section of the Financial Management Department of the Central Office and all the district offices, use this system to prepare the merged balance sheet from all the individual balances received.

Stock Inventory System: This system is used to keep records of non-consumable goods (with their depreciated value) in all the Bank offices.

Dispensary Inventory Control & Billing System: This system keeps the inventory of dispensary items of Central Office and Kathmandu Banking Office, Thapathali and records dispensary related transactions by current and retired staff. It also generates bills, reports and inventory of dispensary items in different formats.

Pay Order Reconciliation System: This system helps Reconciliation Section of Financial Management Department in settling pay order process. It checks the consistency of issue statement against payment statement.

Personnel Record System: This system stores personal and official information about employees of NRB and generates different formats of official reports indicating official status, achievements and other records of employees.

Compliance and Performance Monitoring System

NRB Reporting System: This system receives financial information (13 forms designed under Directive No. 9) from commercial banks. These financial information have been required by the Bank, to be disclosed on a weekly, monthly or quarterly basis.

Ongoing Software Development Activities

In addition to above mentioned software applications, other new software are under development and implementation. These include: (i) software for Micro Finance Department to keep accounts of Rural Self Reliance Fund operations; (ii) software for Legal Division to stores information regarding *"Ghar Marmat Sapati"* and *"Ghar Jagga Sapati"* of NRB staff including their respective *"tamasuk";* (iii) software for Financial Institutions Supervision Department for receiving information from various financial institutions in electronic format and process these information as per need of the department; (iv) software for Mint Department to keep inventory of metals; and (v) software for Banking Office to maintain denomination wise accounts of cash (Local and foreign), coins, commemorative coins etc.

As said earlier, most of the above software applications are developed utilizing dBase IV. dBase IV has many inherent shortcomings which are ultimately reflected in major problems in the system; some examples are: (i). report reconciliation problem; (ii) duplication of work (multiple data entry need); (iii) lack of complete functionality; (iv) lack of audit trail features; (v) lack of scalability; (vi) lack of security. Because of these problems, NRB is moving towards a modern software solution under World Bank funded Technical Assistance Project.

Hardware, Networking and Communication Infrastructure

NRB currently operates around 500 computers (networked and standalone). These range from ones with Intel 80286 processors to those based on Intel Pentium 4 processors. Most of these machines are locally assembled; consequently, they are not verified against any national or international standard. There is, however, a corporate standard which each of these machines must satisfy during procurement. This standard is constantly updated as new products become available in the market.

Printing solutions are based on all available technologies. However, most of the reporting is done in dot matrix printers. Administrative printing including various letters to offices and limited reporting is done with laser printers. A small number of inkjet printers are used for low volume printing.

Each office has a Local Area Networks (LAN) of its own, with the exception of Mint Department and Currency Management Department. LAN in the Bank's Central office is the most comprehensive linking about 250 computers, while the one in Thapathali Office is second with around 40 workstations. Each branch office has a network of about 12 workstations. These networks have not yet been interconnected, and data transfer from these networks to central data server is mainly through zip-disks and CD-RW's. Limited connectivity with branch offices and commercial banks has been organized through e-mail or dial-up direct communication.

All of the LAN are based on 10/100-Base-T Ethernet star topology with cat 5/5e UTP cabling, except for the Central office. The backbone of central office network is 10-Base-T Coaxial cable in Ethernet bus architecture, and distribution is with 10-Base-T or 10/100-Base-T Ethernet star topology with cat 5/5e UTP cabling. All these networks were designed with hubs as distribution points, but these hubs are being replaced with switches as and where required. At the time of writing, upgrading the central office's network backbone with Gigabit Ethernet Network based on Gigabit Fibre Optic cables is under progress.

On the server front, each of the offices except for Mint Department and Currency Management Department has at least one server. These servers are all Dell or HP-Compaq server machines, with dual processors ranging from Intel Pentium III to Intel Xeon. Central office has two of these machines for its data repository, and a third one for mail server. Proxy server is on Intel Pentium III based HP desktop. Internet access in central office is based on a leased line of 256kbps, Cisco 2521XM router and a leased line modem provided by Nepal Telecom. Monitored Internet access has been given to all NRB users connected to the LAN at central office. The website of NRB is hosted on a server in the United States. Apart from the Central office, no other office of NRB has dedicated access to Internet. Every office does have email, which is the primary tool to transfer reasonably sized files. Other offices generally have dial up Internet package that is available to the Manager. Not many staff outside the central office have easy access to Internet.

The data servers operate on Novell Netware 4.x with 100 user license. The mail server runs on RedHat Linux 7.2 while the proxy server runs a Fedora Core1 based Linux. Most workstations run on Microsoft Windows 98 while a very few run on other versions of Microsoft Windows. Many workstations have Microsoft Office 2000 installed along with Symantec Antivirus and other relevant in-house software.

Some of the major shortcomings of existing hardware, network and communications infrastructure are as follows.

- Many of these workstations have limited computing power for hosting the applications of modern software.
- There is limited bandwidth available (through a single NTC leased line) at the central office. There are no network connectivity linkages between the central office, banking office at Thapathali and the district offices.
- Storage of data (data backups) is done periodically but not real-time. No data archiving or data warehouse facility is available. In addition, there is no disaster recovery (DR) site.
- There is a shortage of common productivity enhancement hardware such as Image Scanners, Digital Cameras, Check Scanners, Bar Code scanners or Radio-Frequency Identification Data (RFID) systems.
- There is limited protection of the network from malicious-ware such as viruses, spy-ware, ad-ware and trojans.

Future ICT Needs of NRB

As of now, there is no comprehensive IT policy in the Bank. It is felt that there should be a standard IT policy which defines hardware requirements, copyright issues on software, security and privacy issues and code of conduct. Further, this policy should define the level of access to a person and the responsibility of the person, to secure and prevent its misuse in any form.

Since computers are becoming vital in day to day activity of the Bank, its need will grow in the future. Many machines in the Bank are already out of date. Some other old ones won't work efficiently with new software. These situations will eventually lead to procurement of additional hardware system.

As mentioned earlier NRB's present software systems have many shortcomings. The present necessity for the Bank is to upgrade them to a new system which conforms to modern standards. For this upgrade, the Bank could opt for Oracle, DB2 or Microsoft SQL Server as backend platform. In this context as well, there will be additional requirements on hardware front.

To move towards a paperless office, an effective computer network will have to be established connecting all the machines in all the offices through a giant inter-office network. For the inter-office connection, the Bank will have choices of satellite based, radio based VPN or leased line based WAN.

Intel based servers are not considered good for anything bigger than a small office. So there will be a need of middle-end server, preferably a RISC based machines. UNIX is a very stable and secure operating system, and RISC and UNIX work together very well. But, the Bank could go for Microsoft Windows Server 2003 as well.

The Bank needs to emphasize on the quality of ICT equipments which is important in the context of the plan to upgrade existing stand-alone software to new integrated software that covers majority of the Bank's functions.

There are two potential problems that could arise in the system: security issues and machine dependency of users. A user may work in such a way that the network becomes open to security vulnerabilities, with or without knowledge of user. Virus risk is very common, which may result in data loss. The data may even be stolen or changed. Good security infrastructure like firewalls must be deployed to address such security issues.

In the present context, a user's data is stored locally in his machine and is generally not available in any other machines. Furthermore, with 40 GB hard disks becoming common, a user does not need full hard disk space to store locally generated data. There is a need for a system to distribute data more efficiently throughout the network so that the user can access it regardless of the machine.

One of the lesser known problems is the users' knowledge of system. In the present context, many people are very comfortable with the interface that they have been using. In the context of switching of the system it is essential that every user get skills upgrade training; the users need to know how to get things done the new way; and support personnel should know the system in order to care it effectively. Some people will need to be trained before the switching happens. They should know what kind of system the Bank will get and prepare for the arrival of the system. Such training is more important to support personnel. Others should be trained along with implementation process. These people will learn about the operation of system and make it work once the system comes on online. Since not all people can be trained at once, some users have to be trained after implementation of the system. They will essentially get same training as the second group, but will also learn about changes and additions if any. Furthermore, these people will already have seen the system, and hence be able to relate problems and solutions.

IT Re-engineering Program of the Bank[3]

A comprehensive financial sector reform program has been started in Nepal since 2002 with the financial assistance of World Bank and DFID. One of the components of this reform program is reengineering of NRB. An important task under the reengineering of NRB is development of a central bank IT system. To develop such a system, an IT consultant has been working in the Bank. The objective of this project is to introduce a modern integrated financial and operation management information system in accordance with international standards and central banks best practices. The anticipated outcomes of this project are as follows.

Software Front

- A new centralized software system the "Nepal Integrated Financial Management Information System" (NIFMIS) will be designed, procured and implemented. NIFMIS will assist the various departments regarding both current functionality as well as future needs.
- NIFMIS will meet industry best management practices regarding scalability (supporting increasing numbers of users), interoperability (interfacing with other modern IT systems), robustness (reliability), security (from hackers or malicious software agents) and usability (User-friendly features that encourage technology adoption).
- From a functionality perspective NIFMIS will support a "Single Data Entry" oriented data model, in-built audit control logs (audit trail features), in-built User Access Administration tools and other features associated with modern Accounting, Financial Management and MIS systems.
- NIFMIS will be based on web based or client-server architecture. In either case, NIFMIS will

be capable of creating and publishing reports for authorized agencies (through web interfaces).

Hardware, Networking and Communication Front

- Additional quality assured servers, workstations and other supporting equipments will be procured.
- Better broadband access and network infrastructure linkage for NRB Central Office, and other offices will be established.
- To protect data and the network from malicious-ware such as Viruses, Spy-ware, Ad-ware and Trojans, better firewall and Network Monitoring/ Management systems will be established.
- One of the NRB district offices will be designated as the Disaster Recovery site and will store a backup version of the most recent data.

Training

- Prior to the procurement of new system, related staff will receive training in the key areas such as business system analysis, business process mapping, project management etc.
- During implementation of the new system, various types of trainings that cover technical as well as system management areas will be given to different levels of staff throughout the bank.

It is expected that NRB employees will we well exposed to new technology from these trainings which will facilitate the smooth adoption of new technology in the Bank.

Conclusion

From the pebbles that just facilitated simple additions and subtractions to IBM BlueGene/L processing at a whooping 70.72 teraflops, computers have developed enormously. The technological developments that reduced the size of processors have enabled people to work around their PDA, or try out wearable computers embedded into the garments they wear, and stay in touch throughout the globe, and even to other worlds. The trans-Atlantic telegraph has been replaced by round-the-world fibre optic network and communication satellites. The Internet Boom has revolutionized sharing of information in an organization, or between organizations. All this development has resulted in a dramatic change for information collection, storage, transmission and usages, thereby increasing the efficiency of an organization in many folds. It has enabled financial industry to enhance professional efficiency and provide new products and services. These institutions have also realized that technology alone could enable them to trim costs, achieve efficiency and intensify businesses.

The ICT development has brought a great impact in the financial sector as well as real sector. As such, central bank should have a full awareness about the implications of ICT on both financial and real sector in order to assure monetary and financial stability in the country. Moreover, NRB, being a regulator and supervisor of financial system, needs to be aware of the ICT being used by banks and financial institutions to regulate and supervise them properly and effectively.

As highlighted in the article, NRB has been applying IT in its various functional areas for more than a decade. But the Bank is still relying on old stand alone software system. There are some functional areas yet to be brought into the IT system viz. the need to develop an efficient and secure payment system, need to complete automation of clearing house, integrate technology considerations into supervisory process of banks and financial institutions and the need to computerize various departmental functions that demand automation etc.

At present, LAN and WAN infrastructure at the bank is limited and does not address DR requirements. Corporate email facility is available only at the head office, and Internet bandwidth is not sufficient. To supplement the Bank's plan to switch to a new software system addressing most of the functional requirements of the Bank, quality hardware and communication infrastructure as well as a good DR strategy with efficient disaster management strategy will be required. Similarly, a robust communication infrastructure to interconnect all the offices, addressing the lack of facilities like corporate e-mail and reliable inter-office communication will also be required.

Skilled manpower is important for development of the Bank. Training of all the bank staff is important to help them work efficiently with the new system.

In these circumstances, the Bank must speed up the pace of investment in IT to enable NRB to move towards a fully electronic or paperless office, and reap the full benefits of modern technology.

NRB has started IT reengineering program under the technical assistance of World Bank. At this point in time, future of ICT improvements at the Bank is dependant upon how successful this optimistic project will be. The success of this project will bring a whole new set of possibilities for future improvements. If the project can not achieve the set objectives at a desired level, the Bank will have to reinitiate new programs for upgrading ICT, which will cost more time and money in the modernization process.

To sum up, the rapid development of ICT has resulted with uncertainties to its users regarding which technology to adopt and the cost to replace existing technology with newer one in very short span of time. In spite of these uncertainties, we should accept ICT as an opportunity, and not a threat.

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Footnotes

[1] Based on [3], [4], [6], [7], [9], [15], [17] and [18]

[2] Based on [2], [5] and [19]

[3] Partly based on [12]