# Implementation Status & Results

## Nepal

### Financial Sector Technical Assistance Project (P071291)

<table>
<thead>
<tr>
<th>Operation Name</th>
<th>Financial Sector Technical Assistance Project (P071291)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td>Nepal</td>
</tr>
<tr>
<td>Approval FY</td>
<td>2003</td>
</tr>
<tr>
<td>Product Line</td>
<td>IBRD/IDA</td>
</tr>
<tr>
<td>Region</td>
<td>SOUTH ASIA</td>
</tr>
<tr>
<td>Lending Instrument</td>
<td>Technical Assistance Loan</td>
</tr>
<tr>
<td>Implementing Agency(ies)</td>
<td>Nepal Rastra Bank (NRB)</td>
</tr>
</tbody>
</table>

## Key Dates

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>19-Dec-2002</td>
<td>Board Approval Date</td>
</tr>
<tr>
<td>30-Jun-2007</td>
<td>Original Closing Date</td>
</tr>
<tr>
<td>31-Dec-2011</td>
<td>Revised Closing Date</td>
</tr>
<tr>
<td>01-Jul-2003</td>
<td>Effectiveness Date</td>
</tr>
<tr>
<td>18-Sep-2006</td>
<td>Actual Mid Term Review Date</td>
</tr>
<tr>
<td>15-Feb-2011</td>
<td>Last Archived ISR Date</td>
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</tbody>
</table>

## Project Development Objectives

Assist the Borrowers in (i) developing capacity of Nepal Rastra Bank staff to effectively perform key central banking functions; (ii) implementing restructuring program of Rastriya Banijya Bank and carrying out diagnostic review of Nepal Bank Limited, to prepare these state-owned commercial banks for the next steps of restructuring; and (iii) creating an enabling environment for financial sector development, specifically in the area of credit information bureau, secured transaction registry and financial news reporting.

Has the Project Development Objective been changed since Board Approval of the Project?

- Yes
- No

## Component(s)

<table>
<thead>
<tr>
<th>Component Name</th>
<th>Component Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>RE-ENGINEERING NEPAL RASTRA BANK</td>
<td>5.08</td>
</tr>
<tr>
<td>RESTRUCTURING THE TWO BIG BANKS (NBL &amp; RBB)</td>
<td>17.13</td>
</tr>
<tr>
<td>CAPACITY BUILDING IN FINANCIAL SECTOR</td>
<td>3.30</td>
</tr>
</tbody>
</table>

## Overall Ratings

<table>
<thead>
<tr>
<th>Rating Category</th>
<th>Previous Rating</th>
<th>Current Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Progress towards achievement of PDO</td>
<td>Moderately Unsatisfactory</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Overall Implementation Progress (IP)</td>
<td>Moderately Unsatisfactory</td>
<td>Moderately Unsatisfactory</td>
</tr>
<tr>
<td>Overall Risk Rating</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

## Implementation Status Overview

The project was restructured with Board approval on April 1, 2011 and a revised Development Credit Agreement was counter-signed by the Government on May 20, 2011.

The restructuring entailed cancellation of all activities that were no longer considered feasible. The remaining components are (a) automation of the Credit Information Center Limited...
(CICL), (b) automation of Secured Transaction Registry (STR), and (c) diagnostic study of Nepal Bank Limited. It was agreed with the counterpart that the three activities would be completed within the project period, i.e. end-December 2011 and that no further extensions would be considered.

The procurement process for purchase of equipment for CICL concluded with the opening of the financial bid wherein the amount exceeded the estimated budget. As a result, the Nepal Rastra Bank’s Board, cancelled the bidding process for CICL. A re-bid at this stage is considered unfeasible. Whilst there has been tremendous effort to make operational the automation of STR, including a stakeholders’ workshop at the Ministry of Finance and a review of STR law/regulations by experts who recommended necessary changes and amendments, unfortunately, the procurement process has not progressed and is unlikely to meet the timetable as per the Procurement Plan. Similarly, the procurement process for conducting the diagnostic study of the NBL has been delayed, and is unlikely to meet the agreed time tables as per the Procurement Plan.

### Results

#### Project Development Objective Indicators

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Current</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timely and effective intervention by NRB to enforce prudential regulations and relevant banking legislation.</td>
<td>Text</td>
<td>Value</td>
<td>Weak in supervising and regulating functions; weak legal structure; politicization of the Central Bank; lack of computerization; weak HR management.</td>
<td>NRB has taken action against troubled banks and financial institutions for breach of compliance and fraudulent activities. Some promoters and directors have been charged with criminal offence. One development bank and several finance companies have been given special refinance to avert bank runs in the face of liquidity crunch.</td>
<td>Adequate capacity to take immediate action against troubled banks; Computers available to all professional and support staff; modern HR management practices implemented.</td>
</tr>
<tr>
<td>Date</td>
<td>28-Feb-2003</td>
<td>24-Jun-2011</td>
<td>31-Dec-2011</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Comments</td>
<td>Partly achieved.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Indicator Name</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Current</th>
<th>End Target</th>
</tr>
</thead>
<tbody>
<tr>
<td>A record of timely, effective, and independent implementation of central banking policies.</td>
<td>Text</td>
<td>Value</td>
<td>NRB’s annual report not IAS compliant; Bank supervision reports outdated and no evidence of prompt corrective action; No evidence of effective enforcement of NRB policies.</td>
<td>NRB’s statutory audit takes more than 6 months; Commercial banks (class A) meet reporting deadline while other FIs (class B &amp; C) donot; Capacity and resource constraints for conducting quality on-site and off-site inspections; Several evidences of NRB taking action in the current FY based on Prompt Corrective Action guideline.</td>
<td>Statutory audit for all banks completed within 5 months and NRB audit within 6 months; Annual on-site inspection and quarterly off-site inspection conducted by NRB; Prompt Corrective Action guidelines implemented from FY2010/11.</td>
</tr>
<tr>
<td>Date</td>
<td>28-Feb-2003</td>
<td>24-Jun-2011</td>
<td>31-Dec-2011</td>
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<td>Comments</td>
<td>Partly achieved.</td>
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<td></td>
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<td></td>
</tr>
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<td>Indicator Name</td>
<td>Core</td>
<td>Unit of Measure</td>
<td>Baseline</td>
<td>Current</td>
<td>End Target</td>
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<td>------------------------------------------------------------------------------</td>
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<td>-------------------------------------------------------------------------------------------------</td>
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</tr>
<tr>
<td>Increased share of financial system owned and operated by private-sector players.</td>
<td></td>
<td>Text</td>
<td>More than 50% of financial sector assets state owned/managed - namely NBL, RBB and ADB/N and five Grameen Bikash Banks (GBBs)</td>
<td>As of 3QFY2011 (mid-April 2011), state controlled banks' assets reduced to 22.2% of the total banking sector; Deposits of private sector banks constitute 78.4% of the total.</td>
<td>More than 75% of banking sector assets owned/managed by the private sector banks.</td>
</tr>
<tr>
<td>Date</td>
<td></td>
<td>28-Feb-2003</td>
<td>24-Dec-2010</td>
<td>31-Dec-2011</td>
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</tr>
<tr>
<td>Comments</td>
<td></td>
<td></td>
<td>mostly achieved.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Increase in range and sophistication of financial instruments and services available at competitive prices.</td>
<td></td>
<td>Text</td>
<td>High cost of financing; limited financial products; weak Credit Information Bureau (now CIC); weak financial journalism; lack of adequate training facilities; The number of commercial bank branches reached 1398 in May 2011 from 752 in July 2009, thereby improving the population coverage per branch from 36,760 to 20,300 respectively; New products and services such as online banking, ATM, and mobile banking introduced; Nepal Bankers Training Institute have been incorporated as a private entity with regular and high quality training programs; Turnaround time for credit information reduced from 5 days to 24 hours.</td>
<td>Lowered financial intermediation cost; a more reliable and timely data from the CIC; Better access to training for bankers.</td>
<td></td>
</tr>
<tr>
<td>Date</td>
<td></td>
<td>28-Feb-2003</td>
<td>24-Jun-2011</td>
<td>31-Dec-2011</td>
<td></td>
</tr>
<tr>
<td>Comments</td>
<td></td>
<td></td>
<td>Partly achieved.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indicator Name</td>
<td>Core</td>
<td>Unit of Measure</td>
<td>Value</td>
<td>Date</td>
<td>Comments</td>
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<td>--------------------------------------------</td>
</tr>
<tr>
<td>Production of timely quarterly off-site and annual on-site banking supervision reports for each of the banks operating in Nepal with accompanying relevant analysis.</td>
<td></td>
<td>Text</td>
<td>On-site supervision sometimes overdue by two years; supervision reports produced after six months; no prompt and corrective action (CPA) taken in most of the cases.</td>
<td>28-Feb-2003</td>
<td>24-Jun-2011</td>
</tr>
<tr>
<td>Production of good quality (to international standards) audited financial data for the banks within four months of the end of FY.</td>
<td></td>
<td>Text</td>
<td>Delay in audit of NBL and RBB by more than three years before external management took over in FY 2002/03.</td>
<td>28-Feb-2003</td>
<td>24-Jun-2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Private banks conduct statutory audit within stipulated 5 months and publish provisional within 1 month; Quality/ timeliness of financials of NBL and RBB improved but still behind deadline; NBFI financial data is not published within stipulated time; Audit is not IFRS compliant.</td>
<td>28-Feb-2003</td>
<td>24-Jun-2011</td>
</tr>
<tr>
<td>Indicator Name</td>
<td>Core</td>
<td>Unit of Measure</td>
<td>Baseline</td>
<td>Current</td>
<td>End Target</td>
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<tr>
<td>-------------------------------------------------------------------------------</td>
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<td>-------------------------------------------------------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Finalization of a New Central Bank Act (done) and Banking and Financial Institutions (BFI) Act and associated regulations.</td>
<td></td>
<td>Text</td>
<td>Value</td>
<td>Separate Act for different FIs now under BAFIA (2006) which is being amended to BAFIA to reflect changing environment and awaits parliamentary approval; AML Act ratified by parliament to avert FATF sanctions; M&amp;A directive issued to encourage consolidation of banks &amp; FIs.</td>
<td>BFI to be amended as per recommendation of WB/IMF joint study;</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date: 28-Feb-2003</td>
<td>Comments: partly achieved.</td>
</tr>
<tr>
<td>Gradually improved financial health of RBB and NBL.</td>
<td></td>
<td>Text</td>
<td>Value</td>
<td>NBL and RBB incurred losses of Rs 3 bn and Rs 7 bn in FY 2001/02; NPA level of Rs 10.8 bn (56%) and Rs 14.9 bn (55%) respectively; Negative networth of Rs 9.6 bn and Rs 17.5 bn.</td>
<td>Provisional 3Q (mid-April) results for FY 2010/11: Net profit of Rs.597 mn for NBL and Rs. 1,266 mn for RBB; NPA ratio stands at 5.08% for NBL and 11.1 % for RBB; Staff costs continue to be unsustainably high for both NBL (46 % of total Operating Income) and RBB (37%) compared to industry average (23%).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date: 28-Feb-2003</td>
<td>Comments: Mostly achieved.</td>
</tr>
<tr>
<td>Revocation of restriction on foreign accountancy companies to operate; Changed rules on majority banking ownership; Cessation of directed lending in priority sector.</td>
<td></td>
<td>Text</td>
<td>Value</td>
<td>Foreign accounting firm cannot operate in Nepal; Majority banking ownership restricted to 50%; 12 % of lending portfolio must be invested in priority sector.</td>
<td>Foreign Accounting firms still need local affiliates; majority banking ownership to foreign joint venture partner is 75%; Priority sector lending abolished; Deprived sector lending of 3% still mandatory</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date: 28-Feb-2003</td>
<td>Comments: Foreign banks allowed open full fledged branches; further relaxation on mandatory lending policy; foreign accountancy firms allowed to operate.</td>
</tr>
<tr>
<td>Hiring of Bank Restructuring Advisor to facilitate end-game resolution of NBL and RBB.</td>
<td></td>
<td>Text</td>
<td>Value</td>
<td>Bank Restructuring Advisor not hired for NBL and RBB</td>
<td>Bank Restructuring Advisor not hired.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Date: 25-Aug-2008</td>
<td>Comments: Bank Restructuring Advisor hired to assist NBL and RBB reach its end-game.</td>
</tr>
<tr>
<td>Date</td>
<td>Date</td>
<td>Date</td>
<td>Comments</td>
<td>Value</td>
<td></td>
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<td>---------------------------------------------------------------------------------------------------------------</td>
<td></td>
</tr>
<tr>
<td>08-Aug-2008</td>
<td>24-Jun-2011</td>
<td>31-Dec-2011</td>
<td>Not achieved.</td>
<td>Fast, reliable, secured and error free information transaction to banks and financial institutions.</td>
<td></td>
</tr>
</tbody>
</table>

**Data on Financial Performance (as of 26-May-2011)**
Financial Agreement(s) Key Dates

<table>
<thead>
<tr>
<th>Project</th>
<th>Loan No.</th>
<th>Status</th>
<th>Approval Date</th>
<th>Signing Date</th>
<th>Effectiveness Date</th>
<th>Closing Date</th>
</tr>
</thead>
</table>

Disbursements (in Millions)

<table>
<thead>
<tr>
<th>Project</th>
<th>Loan No.</th>
<th>Status</th>
<th>Currency</th>
<th>Original</th>
<th>Revised</th>
<th>Cancelled</th>
<th>Disbursed</th>
<th>Undisbursed</th>
<th>% Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td>P071291</td>
<td>IDA-37270</td>
<td>Effective</td>
<td>USD</td>
<td>16.00</td>
<td>8.50</td>
<td>7.50</td>
<td>10.69</td>
<td>0.73</td>
<td>126.00</td>
</tr>
<tr>
<td>P071291</td>
<td>TF-50593</td>
<td>Closed</td>
<td>USD</td>
<td>10.95</td>
<td>7.71</td>
<td>3.24</td>
<td>8.36</td>
<td>0.31</td>
<td>109.00</td>
</tr>
</tbody>
</table>

Disbursement Graph

Key Decisions Regarding Implementation

Given the delays in the procurement process for all the remaining activities under the restructured project, and the very low probability that activities will be completed within the project period, an early closure of the project is under consideration.

Restructuring History

RVP Approved on 03-Jun-2008, RVP Approved on 03-Aug-2008, Level one Approved on 01-Apr-2011

Related Projects

There are no related projects.