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**TRENDS AND DEVELOPMENTS IN INSOLVENCY SYSTEM AND RISK
MANAGEMENT: EXPERIENCE OF NEPAL**

by

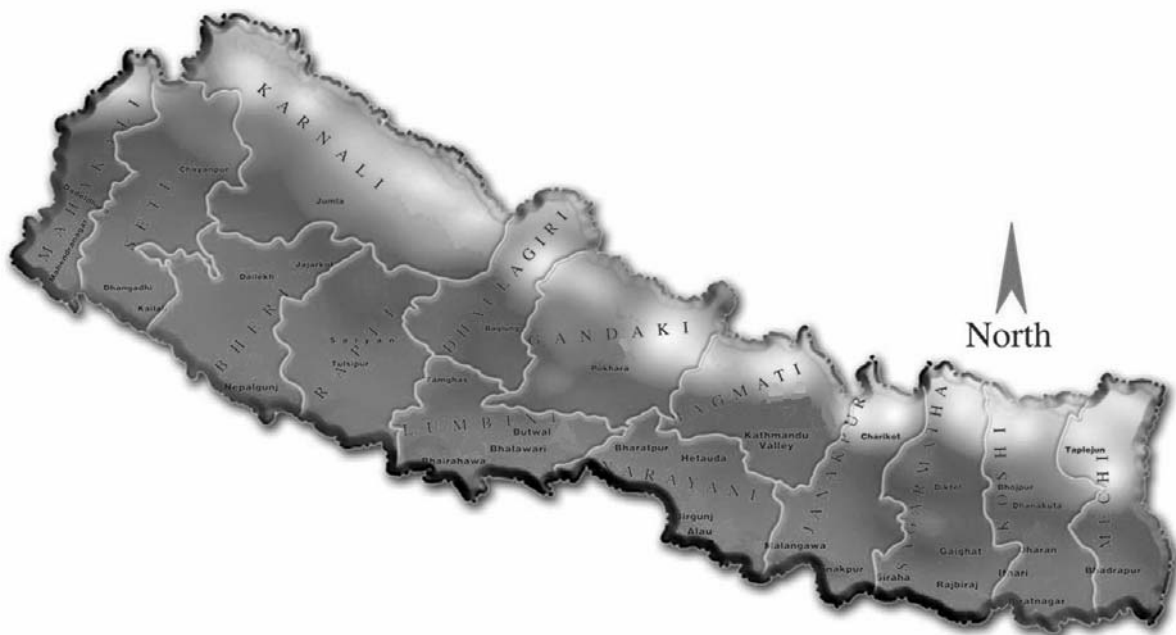
Mr. C. B. Ramamurthy, Nabil Bank Limited, Nepal

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**MINISTRY OF FINANCE,
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MINISTRY OF COMPANY AFFAIRS
AND INSOL INDIA**

*TRENDS AND DEVELOPMENTS IN INSOLVENCY SYSTEM AND RISK
MANAGEMENT:*

EXPERIENCE OF NEPAL



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Summary:

Nepal, the birth place of Lord Buddha, the home for exotic biodiversity, tallest mountain in the World – Everest, a landlocked agro-based economy with low industrial base, the most preferred tourist destination in South East Asia is an underdeveloped country, presently plagued by Maoist insurgency causing stagnancy in the economy.

Legal System:

- There is a 3 tier legal system, Supreme Court being the apex court followed by Appellate courts and District courts. In terms of the provisions enshrined in the Constitution of Nepal, judiciary is an independent functional body to dispense justice in an effective manner.
- The functioning of the judiciary in relation to the financial system is not compatible due to:
 - i. absence of commercial benches with competent/ trained man power for deciding commercial cases
 - ii. inordinate delays in deciding on the commercial cases
 - iii. grant of ex-parte restraint orders against Banks/ Financial Institutions (FIs) blocking disposal of the securities for realization of their dues
 - iv. lack of transparency.
 - v. absence of legislation (a) for registration of security transactions for determination of priority of the 'charges' amongst various lenders (b) relating to asset reconstruction company for credit risk transfer etc.
- While, to some extent legal reforms have taken place, there is much to be done with particular reference to enacting Insolvency Law and professionalizing Insolvency practice. Due to want of meaningful Insolvency Law, there is total absence of interface between the Insolvency system and Credit Risk Management system. Concepts like re-organization/ rehabilitation of the business entities through the vehicle of Insolvency Law are unknown.

Credit Risk Management System:

- The financial system comprises of Commercial/ Development/ Co-operative banks and FIs, the functioning of which are overseen by the Nepal Rastra Bank – the Regulator.
- Credit risk management per se, is impacted due to a host of factors i.e. lack of transparency in the financial statements, permissive banking practices such as multiple banking contributing to diversion of funds, flight of capital, over financing etc., absence of risk based pricing methodologies, customer risk rating models, absence of credit rating agencies, independent credit information bureau, credit risk transfer instruments, lack of transparency among the banks and FIs in exchange of information on the business entities etc. These contributed for higher level of impaired debt specifically in the banking sector.
- The Regulator has a formidable task of pursuing the financial sector reforms for deregulation etc. and also introduce regulation in critical areas relating to credit risk management. It has a catalyst role for transformation of the financial system by coordinating with the government agencies etc. for bringing in required legislation, for setting up credit rating agencies etc. and for setting up institutions for imparting banking education etc.

The Judicial system and financial sector in Nepal have to cross several milestones by carrying out meaningful Reforms, enacting required legislation and in this uphill task, the Government, Regulators Banks/ Financial Institutions will have to play leading and useful roles.

Nepal at a glance

Nepal is situated between China in the north and India on other side. It is a landlocked country, shaped roughly like a rectangle and extending approximately 885 kilometres east to west and 145 to 241 kilometres north to south.

Area : 147,181 sq. km
Capital : Kathmandu
Population : 24.7 Million
People : Nepal has more than 60 ethnic groups and 70 spoken languages.
Language : Nepali is the national language.
Since English is compulsory at school, most of the educated people speak English as well.
Currency : Nepalese Rupee (*Approximately US\$ 1 equals Rs.74.25 as of Oct 2004*).
Political System: Multi-party democracy with a Constitutional Monarchy.

Nepal is one of the richest countries in the world in terms of bio-diversity due to its unique geographical position and latitudinal variation. It has the world's deepest gorge "Kali Gandaki". The elevation of the country ranges from 70m above sea level to the highest point on earth, Mt. Everest at 8,848m - all within a distance of 150 km – with climatic conditions ranging from subtropical to arctic. This wild variation fosters an incredible variety of ecosystems, the greatest mountain range on earth, thick tropical jungles teeming with a wealth of wildlife, thundering rivers, forested hills and frozen valleys.

Nepal is home to:

- 8 out of 14 highest summits in the world exceeding an altitude of 8,000 M including Mt. Everest, Annapurna, Dhaulagiri.
- 2% of all the flowering plants in the world;
- 8% of the world's population of birds (more than 848 species);
- 4% of mammals on earth;
- 11 of the world's 15 families of butterflies
(*more than 500 species*);
- 600 indigenous plant families;
- 319 species of exotic orchids.

Foreign Investment

Despite being a rich country in terms of natural gifts, Nepal's resources are under utilized. It is a neighbor to the world's most populous countries, China & India and thus has a huge potential for investment opportunities in several sectors of the economy. The Government has adopted a market economy and has a liberal policy towards foreign investors.

Major Potential Investment Areas

Hydro-electric power (Avg. annual flow = 225 billion QM, Generation Capacity = 83 million KW), Tourism, Agro & Forest based Industries, Flower Seeds, Vegetable production for export, Fruit processing, Tea Development, Sericulture, Integrated Dairy industries, Floriculture, Processing of spices, Mushroom cultivation, Coffee processing, Mineral exploration & exploitation, Textile industries, Electrical & Electronic industries, Pharmaceutical industries, Leather goods industries, Air Services, Computer Software Development, Adventure Sports.

Key Economic Indicators of Nepal

Financial Year 2003-2004 ()*

1	GNP at Market Price (USD)	6.88 billion
2	GDP Growth (based on constant 1994/95 factor cost)	3.70%
3	Gross Domestic Investment/GDP	26.70%
4	Gross Domestic Savings/GDP	12.20%
5	Inflation Rate	4%
6	Volume of Money Supply (m2 in USD)	3.78 billion
7	Money Supply (m2) Growth	13.50%
8	Volume of Merchandise Export (USD)	0.71 billion
9	Merchandise Export Growth	5.60%
10	Volume of Merchandise Import (USD)	1.88 billion
11	Merchandise Import Growth	11.90%
12	Current Account Surplus (USD)	0.2 billion
13	Overall Balance of Payment Surplus (USD)	0.2 billion
14	Foreign Exchange Reserve as at mid - July 2004 (USD) <i>(The reserve covers 11.2 months' merchandise import)</i>	1.76 billion
15	Exchange Rate	USD 1=Rs.73.8

() FY in Nepal starts from Mid July*

GDP at Factor Cost

F/Y 2003-2004

S.N.	Sector	Share %
A	Agriculture	38.8
1	Agriculture, Fisheries & Forestry	38.8
B	Non-Agriculture	61.2
1	Mining & Quarrying	0.5
2	Manufacturing	7.7
3	Electricity, Gas & Water	2.2
4	Construction	10.1
5	Trade, Restaurants & Hotels	10.4
6	Transport, Communications and Storages	9.5
7	Financial & Real Estate	10.9
8	Community & Social Services	10.0

Nepal is a preferred tourists' destination centre in South Asia offering various attractions in the field of nature, culture and adventure.

Evolution of Financial Sector in Nepal

A) Commercial Banks

Commercial Banking in Nepal started with the establishment of Nepal Bank Limited (NBL) in 1937. Government and the private sector had 51% and 49% shares respectively. With the objective of expanding banking services to nooks and corners of the country, Rastriya Banijya Bank was set up in 1966 with 100% government investment. In early '80s, the government opened-up Nepalese banking sector for foreign investment. As a result, Nepal Arab Bank Limited (renamed Nabil Bank Limited on 1st January 2002) was established in 1984 with joint venture between Dubai Bank Limited, Dubai, Nepalese financial institutions (Rastriya Beema Sansthan, Nepal Industrial Development Corporation and Security Exchange Centre) and general Nepalese public. In 1986 and 1987, Nepal Indosuez Bank Limited and Nepal Grindlays Bank Limited came into operations with 50% holding by Banque Indosuez, Paris and ANZ Grindlays Bank Limited, Australia respectively.

With the restoration of multi-party democracy in 1990, the government pursued liberal economic policy which paved the way for establishment of commercial banks by the private sector with or without foreign investment. Presently, there are 17 commercial banks in the country. Commercial banks are major players of the financial market as they have lion's share in country's deposits (81%) and credit (72%).

B) Central Bank

Nepal Rastra Bank has been carrying out the functions as the central bank since 1956.

C) Development Banks

Nepal Industrial Development Corporation (NIDC) was setup in 1959 by the government under a special charter with the objective of promoting private industrial sector. Similarly, Agricultural Development Bank was established in 1968 under a special Act with the objective of providing institutional credit for giving a fillip to agricultural sector. With the introduction of Development Bank Act 1996, the number of development banks increased. Currently, there are 25 development banks (including rural development banks) with 11% and 18% share in country's deposits and advances respectively.

D) Finance Companies

Though Finance Company Act was enacted in 1985, the first finance company named Nepal Housing Development Finance Company came into operations only in 1992. Currently, there are 59 finance companies with 7 % share in country's deposits and 9% share in advances.

E) Cooperatives

Despite the concept of cooperative being very old in Nepal, the formal cooperative working under NRB regulation and supervision was established in 1993 only. Nabajeeban Cooperative Society is the first of its kind. Currently, there are 21 cooperatives working under NRB with around 1% market share in both the deposits and advances.

- In the last 12 years, a large number of commercial banks, development banks, finance companies and cooperatives have been established. To expand their business, they have aggressively expanded branch network (specially urban areas). Number of banks/financial institutions and their branches have increased at a time the country is going through a turbulent period due to the Maoist insurgency which impacted economic growth severely.
- Establishment of these institutions triggered competition in the market. As a result, customers got better and new services at a competitive price. However, the number of professionals and size of economy did not grow to keep up with the increase in number of banks and financial institutions. It gave rise to reckless lending which contributed for high level of non-performing loans in the industry.

- **In sum**, the overall health of financial sector with particular reference to Banking Sector is not in a good shape due to a host of factors such as lack of transparency , permissive banking practices, weak legal system, weak regulatory environment, high level of impaired debt, dearth of skilled manpower/specialists/professionals etc. These issues are dealt with separately.

➤ Major Laws Relating to Financial System

Nepal Rastra Bank Act 2002
 Bank and Financial Institutions Ordinance 2004
(The Ordinance has replaced Agricultural Development Bank Act 1967, Commercial Bank Act 1974, Finance Company Act 1985, Nepal Industrial Development Corporation Act 1990, Development Bank Act 1996)
 Cooperative Bank Act
 Foreign Exchange Regulation Act 1962
 Financial Intermediary Act 1998
 International Financial Transactions Act 1998
 Insurance Act
 Debt Recovery Tribunal Act

➤ Financial Institutions (As at mid - July 2004)

A. Commercial Banks	17
B. Development Banks	20
C. Finance Companies	59
D. Insurance Companies	17
E. Employees' Provident Fund	1
F. Stock Exchange	1
G. Co-operatives	21
H. Micro Finance NGOs	44
I. Rural Development Banks	5
J. Citizen Investment Trust	1

➤ Ownership Structure of existing major commercial banks

Nepal Bank Limited	Govt 41%, others 59%
Rastriya Banijya Bank	Government 100%
Agricultural Development Bank	Government
Nabil Bank Limited	Foreigners 50%, 30% general public & 20% Nepalese financial institutions
Standard Chartered Bank Nepal	Foreigners 75%, general public 25%
Himalayan Bank Limited	Foreigners 20%, Nepalese promoters 51%, Employee's PF 14%, General Public 15%

Some Statistical information on Nepalese Financial Sector is presented below:

TABLE 1

(Summary of Assets & Liabilities)
as at mid-January 2004

Rs Million

S.N.	Capital & Liabilities	Commercial Banks	Development Banks	Finance Companies	Cooperatives	Country Total
1	Capital Fund	12,229	4,804	3,600	287	20,921
2	Deposits:	215,137	29,791	17,945	2,038	264,910
a	<i>Current</i>	27,386				27,386
b	<i>Savings</i>	105,781	479		1,045	107,306
c	<i>Fixed</i>	64,658	27,793		828	93,279
d	<i>Call</i>	14,558				14,558
e	<i>Others</i>	2,754	1,518		164	4,436
3	Borrowings	4,324	8,260	797	42	13,423
4	Others	87,344	8,993	2,339	497	99,173
5	Total (1+2+3+4+5)	319,034	51,848	24,681	2,864	398,427
	Assets	Commercial Banks	Development Banks	Finance Companies	Cooperatives	Country Total
6	Cash & Bank Balance	30,763	4,340	2,779	370	38,251
7	Investments	53,682	3,482	2,576	279	60,019
8	Loans & Advances	133,437	34,077	16,366	1,575	185,456
9	Others	101,151	9,949	2,960	640	114,700
10	Total (6+7+8+9+10)	319,034	51,848	24,681	2,864	398,427
CD Ratio (8/(2+3))%		61	90	87	76	67
ID Ratio (7/(2+3))%		24	9	14	13	22
LD Ratio ((6+7)/(2+3))%		38	21	29	31	35
Market Share (%)						
	<i>Deposit</i>	81	11	7	1	100
	<i>Credit</i>	72	18	9	1	100

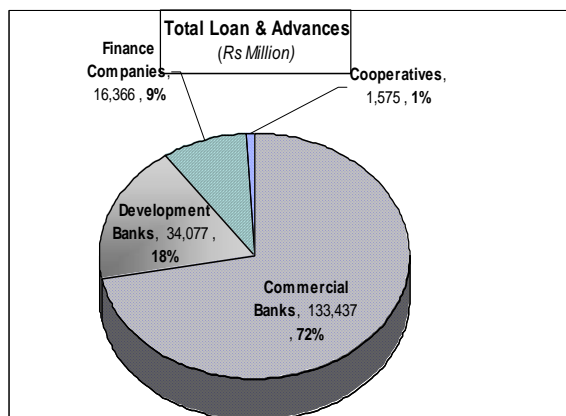
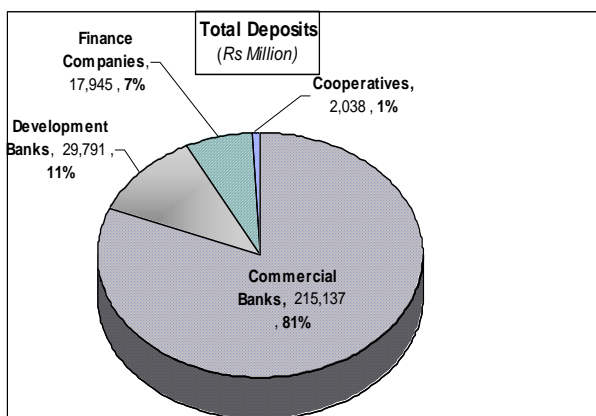


TABLE 2

Types and Volumes of Credit

As at Mid-January 2004

(A) Commercial Banks	Rs Million	(B) Development Banks	Rs Million
Agriculture	4,153	Agriculture	412
Mining	366	Industrial	2,919
Productions	44,622	Housing and Real Estate	443
Construction	3,688	Business Sector	682
Metal Productions, Machinery & Elec. Tools and Fittings	1,303	Service Sector	1,653
Transportation Equipment Production & Fitting	1,530	Against Fixed Deposit (FDR)	3
Transportation, Communications & Public Services	7,054	Others	27,965
Wholesaler & Retailers	27,074		
Finance, Insurance & Fixed Assets	4,383		
Service Industries	12,473		
Consumable Loan	3,554		
Local Government	3		
Others	23,235		
Sub Total (A)	133,437	Sub Total (B)	34,077

(C) Finance Companies	Rs Million	(D) Cooperatives	Rs Million
Hire purchase	2,855	Commercial	617
Housing Loan	4,759	Production	49
Term Loan	7,670	Against FDR & Security	32
Lease Finance	144	Others	877
Merchant Banking	64		
Fixed Dep and Govt. Security	612		
Others	263		
Sub Total (C)	16,366	Sub Total (D)	1,575
		Country Total (A+B+C+D)	185,456

TABLE 3

Types of Collateral of Commercial Banks

As at Mid-January 2004

Collateral	Credit Volume (Rs Million)
Gold/Silver	1,385
Government Securities	2,798
Non Government Securities	911
Fixed Deposit	2,171
Asset Guarantee	87,042
<i>Fixed Asset</i>	64,877
<i>Current Asset</i>	22,164
Bills Guarantee	10,147
Personal Guarantee	6,431
Credit Card	53
Earthquake Victim Loan	114
Others	22,387
Total	133,437

Trends & Developments in Insolvency & Creditor Rights Frame Work & Practices

Legal System in Nepal - an outline:

- Constitution of Nepal 1990 accorded significant status to the Judiciary aimed at rendering it the most independent functional body to dispense justice in an effective manner. Services of the judges of Supreme Court cannot be terminated unless Parliament impeaches them with two third majority on grounds of incompetence, dishonesty, misconduct and such impeachment is upheld by His Majesty the King. Similarly, the services of the judges of Courts of Appeal and District Courts may be terminated or legal action may be initiated against them only on recommendations by the Judicial Council and accepted by His Majesty the King.
- Judiciary is divided in to three parts and the courts are divided according to the geographical divisions of the country. There are 75 district courts, each in a district of Nepal, as the court of first instance. There are 16 Courts of Appeals as the Appellate Courts. A Court of Appeal also has the original jurisdiction in certain judicial review cases and can issue writs of habeas corpus, writs of mandamus, and injunction orders.

The Supreme Court is the apex court and is situated at the Capital, Kathmandu. The Supreme Court is headed by the Chief Justice, who is also the head of the judiciary. There are 15 permanent judges including the Chief Justice. The Chief Justice and the judges of the Supreme Court are appointed by the King on the recommendations of the Constitutional Council and the Judicial Council. The Constitution of Nepal lays down the qualifications for the judges. Apart from these ordinary courts, a Special Court could be established to hear the cases of corruption drug-related matters etc.

- **Judicial Council – Its role etc.**

Judicial Council is set up to oversee the functioning of the Judiciary etc. It consists of:

- Chief Justice
- Law Minister
- Two senior judges of Supreme Court
- Senior legal experts appointed by His Majesty the King

- a. to recommend appointment of the judges in Supreme Court to the King (Supreme Court, Appeal Court).
- b. To instill discipline, efficiency, transparency etc. in the system.

Current Legal & Institutional Developments

Need for Insolvency Legislation

- Personal Bankruptcy law was first introduced in Nepal as early as 1853. However there has been no reported case pursued under the said law. Even today personal bankruptcies are not very much in vogue.
- Law relating to Insolvencies of Partnership Firms, Limited Companies, Banking and Financial Institutions, Insurance Companies etc. are embodied in different legislations i.e. Partnership Act deals with dissolution of partnership firms, winding up of Limited companies are governed under the Company Act, The Banks and Financial Institution Ordinance 2004 deals with the dissolution and insolvency of the banks and financial institutions licensed under the said Ordinance. Thus, the law relating to insolvency are scattered in different Acts. Further, invocation of Insolvency proceedings is yet to take roots in the Nepalese society.
- Even though Company Act deals with liquidation of Limited Companies (other than Banks, Financial Institutions, Insurance Companies and State sponsored companies), the same has not gained popularity due to the following reasons:

- i. Creditors holding at least 50% of the total loan outstanding of the company, which is outstanding for more than one year could alone apply for liquidation of the company, on the grounds of failure to pay. This is too stringent.

The Law does not permit appointment of liquidator by creditors and as such the office of company Registrar oversees the liquidation of the companies. This has a dampening effect.

- ii. The relevant statistics reveal that during the last 10 years voluntary liquidation of 130 Private Ltd. companies and 19 Public Ltd. companies were carried out and there has not been even a single liquidation of any company initiated by any creditor.

These ostensibly necessitated the need for a comprehensive Legislation on Insolvency.

The proposed Legislation on Insolvency

- Insolvency Ordinance 2004 has been drafted and is reported to be pending with the Palace for the King's assent.
- A study of the draft Ordinance revealed the following key aspects (which are not addressed in the extant Legislation):
 - i. Ordinance is applicable to all companies incorporated with limited liability under the Companies Act; including Banks, Financial Institutions, Insurance Companies and companies set up by the Government (approval of Nepal Rastra Bank, Insurance Board and concerned Government departments are needed for Insolvency of Banks, Financial Institutions, Insurance Companies and Government companies respectively.)
 - ii. It deals with voluntary liquidation and involuntary liquidation that may be prompted by creditors holding more than 5% of debt outstanding / shareholders holding 5% of equity stake/ 5% debenture holders. However, voluntary liquidation will continue to be under the purview of Company Act.
 - iii. Focuses/ emphasizes on time bound completion of the proceedings indicating the time table at each stage.
 - iv. Deals with issues like 'Fraudulent preference', 'Doctrine of Relation back'
 - v. Jurisdiction is vested with the Court as against Company Registrar. No Insolvency proceeding can be initiated unless ordered by the Court on examination of relevant factors.
 - vi. Provides for investigation into the factors leading to Insolvency and Reorganization/ rehabilitation of the company in appropriate cases [Sec 13 (I)]
 - vii. Upholds right of secured creditors to be paid out of security charged.
 - viii. Provides for issue of interim order prohibiting transfer of shares, encumbering/ alienating, transferring etc. of the company's assets etc. [Sec C (11)]
 - ix. Facilitates professionalizing the Insolvency proceedings by directing appointment of Investigation Officer (Sec 10), appointment of Reorganization Manager [Sec 13(4)] who is an Insolvency practitioner wherever deemed necessary. Official Liquidator (empanelled) alone should conduct the Insolvency proceedings.
 - x. Automatic suspension of specified transactions (Sec 19) such as transfer/ sales of assets, transfer of shares etc. Legislation recognizes Committee of Creditors to be associated with the liquidation

proceedings (Sec 44, 45). The liquidator should mandatorily call for a meeting of Creditors before compiling his report.

- xi. Permits setoff of mutual debts between the company in liquidation and creditors (Sec 53)
- xii. Deals with Insolvency related crimes i.e. deliberate concealment of the facts that the Company Solvency is under threat, forgery, fraud, cheating, misleading etc. [Sec 72 (1) C].
- xiii. Setting up of Insolvency Administration Office (Sec 65) to administer the practice of Insolvency, to maintain roaster of Insolvency Practitioners and to set in motion their Code of conduct etc.

On His Majesty the King giving the assent, the Ordinance will be promulgated and then it will become the Law of the country.

Limitations of the proposed Ordinance:

- Given the scenario that 90% of the companies incorporated in Nepal are Private Limited closely held by the family members, the prospects of Insolvency Law gaining a foothold is debatable.
- Due to pronounced lack of transparency in compilation of the financial statements of the companies, the application of the solvency test i.e. liabilities of the company exceed the value of assets, for determining the insolvent status of a company may not be an easy task.
- Due to availability of self-help remedies to the Banks and Financials Institutions under the law for realizing the dues by disposal of the securities charged, and, taking into account the time lag for getting decisions of the Court through formal Insolvency proceedings, the prospects of Banking community including Financial Institutions invoking the Insolvency proceedings, for the present, appear to be very limited.
- As a corollary to this, threat of Insolvency may not usher an era of accelerating the recoveries in the financial system.
- **Success of the Insolvency Ordinance, by and large hinges on the availability of professionals, experts to be Insolvency practitioners. Acute dearth of professionals in different fields could be a non-starter for the proposed Insolvency law.**

Legal Reforms – Milestones

Contextual to the need for legal reforms and to update the various laws, the following are enacted during the past few years. This is also attributable to financial sector reforms.

- Bank and Financial Institution Ordinance 2004 consolidated the separate Legislation governing the banks and financial institutions. Public debate on the Ordinance highlighted the need for drastic changes which is receiving attention of the Government. Fresh Ordinance on the banks and financial institutions is in the draft form.
- Security Transaction Registration Act – This is an important piece of Legislation for mandatory registration of the “charges” created on the movable assets of the Corporates by the banks and financial institutions. This is expected to facilitate determining priority of charges of different lenders from the banking and financial segments. This is in the process of finalization for promulgation.
- Debt Recovery Tribunal Act – This is an exclusive forum for Banks and Financial Institutions to lodge their claim for recovery of dues exceeding Rs. 500,000 each. This has commenced functioning since October 2003. However, as a number of recovery cases filed with it are quite large in number, decision on the same is bound to take time. Further, lack of experience/ expertise in dealing with the commercial cases by the judiciary could pose a serious threat to efficiency of DRT.

- Anti Money Laundering Law is proposed and the same is in draft form.
- Company Act 1996 is being repealed, incorporating the required changes including the chapter on liquidation.

Asset Management Company:

- As on date there is no Asset Management Company (AMC) to acquire impaired debt from the financial system. The Government is proposing to set up an AMC and in this connection, draft of the Asset Management Ordinance has been prepared on which the public opinion has been sought.
- The Ordinance in its draft form has several loose ends which need to be tied up on the basis of the feedback received from knowledgeable quarters etc.
- The AMC proposes to acquire assets and liabilities connected with the debtors and arrange for sale or management of the same. This is too complicated and AMC, in the formative stage should confine itself for the purchase of the impaired debts from the Banks (BKs)/ Financial Institutions (FIs).
- AMC proposes to deal with any category of credit not placed by the NRB in the category of good credit. Taking into account the magnitude of the impaired credit in the Banking system/ FIs, with limited resources this will be too much to handle by AMC. Further, there are no indicative parameters for acquisition of impaired debts from BKs/ FIs.
- Even on purchase of impaired debt from the BKs/ FIs, the AMC does not get the right of Subrogation as the same has no legal sanctity as on date. Therefore, the assets charged to the lender do not get automatically transferred to the AMC to facilitate sale etc.
- Unless and until legal frame work is restructured meaningfully to facilitate recovery of the dues by the BKs/ FIs, AMC will not be able to play useful role as it will also be subjected to the same handicaps presently faced by the banking system/ FI i.e. Restraint orders, decision of AMC could be taken to the Court and the legal decisions is a long haul etc. Moreover, the multiple banking scenario will certainly come in the way of dealing with the impaired credit with particular reference to contentious issue relating to priority of charges etc.

In sum, AMC as per the draft Ordinance will have no teeth. Therefore, we do not see AMC in the proposed structure will play a useful role contextually.

- **Interactions with the elite in the legal professions/ industry/ banking etc. reflected the following on the legal system:**
 - i. Appointment of judges to Supreme Court and other Courts are not strictly in accordance with merits. Subjectivity/extraneous considerations do creep in.
 - ii. Comprehension levels of the Judiciary, in respect of commercial cases is quite low due to lack of good legal education, exposure etc. Consequently, the outcome of commercial cases are not easily ponderable.
 - iii. Enormous time is entailed in deciding on non-complex commercial cases and it may take about two years to issue the verdict and if the same goes to Appeal Court, it may take further two years. There is much more delay in complicated commercial cases. Consequently, the cost is significant to the concerned parties.
 - iv. **Lack of transparency, political interference etc. are stated to be some of the deficiencies in the working of the Judiciary. It appears that National Judicial Council has not moved effectively to weed out corruption and to book the guilty persons.**
 - v. Expertise in specific branches of Law is conspicuous by its absence.

- vi. Various enactments / Ordinance are introduced by the Government under guarded secrecy in the sense there are no meaningful debates to elicit the views of the cross section of the concerned segments like banks, industries, trade etc. Further, suggestions that emanate following the enactment are not considered seriously.
- vii. Arbitration Act was passed 23 years ago. However, arbitration as an alternative vehicle for dispute resolution is yet to gain popularity. The Nepal Council of Arbitration Practitioners has been established to provide institutional support for Arbitration. However, the said council is still in its infancy.
- viii. Absence of legal firms of international repute to share experiences/ expertise.
- ix. Entire judicial machinery moves manually. Application of technology is yet to take shape.
- x. To overcome to a certain extent some of the deficiencies (as stated in preceding paras), the Government:
 - a. has set up National Judicial Academy to provide continuing legal education to judges.
 - b. is proposing to set up Commercial benches at the related District Courts to deal with commercial cases. The concerned judges are to be imparted required training. This step is aimed to improve the efficiency/ effectiveness in deciding on the commercial cases plus reduce the time lag.

General:

- Preponderance of the lending of the commercial banks and financial institutions is against the security of the current assets and or fixed assets. The Bank and Financial Institutions Ordinance empowers realization of the dues by disposal of the securities without intervention of the Court. Perceived shortcomings are:
 - i. Creation of the security is through execution of relevant documents for the primary security and for the mortgages by registering the same with the concerned Land Revenue Office.
 - ii. There is no legislation requiring registration of the encumbrances (“charges”) either on primary or collateral securities.
 - iii. Consequently, in a scenario where a customer avails credit facilities from more than one bank (Multiple Banking) and in absence of transparency/ exchange of information among the banks, it becomes very difficult if not impossible to ascertain the ranking of the charges vis-à-vis the extent of the share of the primary security in the event of recovery. Therefore, there is a dire need for a comprehensive legislation relating to registration of ‘charges’.
 - iv. Efforts for recovery of the dues through public auction of the securities, quite often thwarted by ex-parte restraint orders from the Judiciary and enormous time is involved to vacate the restraint orders etc.
 - v. There should be enabling provisions for the banks to seek Orders from the competent Court restraining the borrowers/ guarantors from encumbering/ alienating/ transferring the assets offered as security to the banks, during the auction notice/ recall notice’ period and or during the course of judicial proceedings for recovery of the banks’ dues.
 - vi. Of-late, the superiority of the rights of the secured creditor to be paid out of the security charged is threatened due to Revenue Authorities slapping an embargo on transfer of the property arising out of the sale of the same.

These issues need to be addressed by the Government.

- Generally unsecured lending is not entertained by the banks and financial institutions, especially as the Regulator discourages the same.

- Insolvency as a medium for recovery of the dues in the financial systems is yet to gain ground mainly due to the rigours of the extant Legislation. Consequently, reorganization procedures are unknown in the system. However, the Regulator has issued guidelines facilitating restructuring/ rescheduling the dues arising out of liquidity constraints of the customers and this has gained acceptance among the banks and financial institutions.
- Practically there is no impact of the present Insolvency regulations on the risk management practices and policies and as such it does not provide any incentive for efficient credit risk management.

The new Insolvency Legislation which is on cards is expected to address, to a large extent deficiencies/ rigours of the present Insolvency Regulations.

- Further, due to the perceived inadequacy of legal system, especially due to grant of ex parte restraint orders blocking the sale of security and inordinate time taken for deciding on the recovery cases and lack of transparency, out of court settlements and out of court workouts are gaining acceptance.

Legal System in Nepal is still to cross several milestones to play a crucial role in the development of the country's economy. This may be possible through improved efficiency, effectiveness and transparency and willingness to move forward.

Current Risk Assessment and Management Systems and Policies

1. Risk Assessment and Management Systems

- A good credit management system and procedures are prerequisites for an effective credit risk management. Components of credit risk management are:
 - i. Credit Policy – Road Map for the Credit portfolio
 - ii. Credit appraisal – taking into account all relevant aspects of the applicant/applicant's unit such as:
 - a. Audited/un-audited financials for the past 3 yrs.:
 - b. **Profile on the entity:** Background of the promoters and experience, installed/ utilization of capacity, product mix, process, Management team, shareholding pattern, group companies, Marketing arrangements, Export potentials, Macro level industry scenario such as the competitors etc.
 - c. Regulatory environment
 - d. Demand and supply
 - e. Risk factors
 - f. What could spoil the party etc.
 - g. Details of credit facilities required along with rationale:
 - h. Projected profitability estimates and cash flows in case of loan for acquisition of fixed assets.
 - i. Industry Scenario vis-à-vis update on Regulatory environment
 - j. Market reports
 - iii. Credit approval – bifurcation of Credit Marketing and Credit approval processes and independent vetting of the proposals emanating from marketing department.
 - iv. Post approval procedures – documentation, security verification, insurance coverage etc.
 - v. Post disbursement procedures – monitoring the conduct of the accounts/ debt servicing, periodical security verification, periodical review of performance , credit checks, audit by external agencies, tracking smoke signals
 - vi. Exposure limits including for Groups
 - vii. Sectoral exposure limits
 - viii. Risk Pricing / Customer Risk Rating / Facility Risk Rating Models
 - ix. Geographical exposure limits – wherever applicable
 - x. Concentration risk

- xi. Assessment of other risk factors/ risk mitigants i.e. environmental, regulatory, collection risk in respect of exports, counter-party, exchange risk, Indo Nepal Treaty etc. etc.
 - xii. Recovery management – separate set-up for exclusive focus for exhausting “self-help remedies” and for putting through out of court settlements, out of court work outs, for filing the claims with DRT, Recovery & Settlement Policy, Road map
- Interactions with senior executives of commercial banks, central bank, development banks, and finance companies revealed that while a very few banks have in place a good credit risk management system and procedures, most of them are in the process of doing so. Even though credit marketing and credit risk functions are segregated in the leading banks, it is yet to take roots except in one bank (Multinational) and this is mainly attributable to lack of trained/ professional personnel and/or mindset.
 - Adherence to good credit risk management system has a direct bearing on the health of the banks as could be seen from the following data:

TABLE 4

Non Performing Loans of Commercial Banks

		As at Fiscal Year Ending Mid July									Growth % (NPL/T. Loan)	
		2001			2002			2003			2002	2003
S.N	Banks	Total Loan	NPL	NPL%	Total Loan	NPL	NPL%	Total Loan	NPL	NPL%		
1	Nepal Bank	20,419	10,373	51	19,253	10,834	56	18,132	10,965	60	11	7
2	Rastriya Banijya Bank	27,375	12,337	45	27,037	14,889	55	26,609	16,005	60	22	9
A	Subtotal	47,794	22,710	48	46,290	25,723	56	44,741	26,970	60	17	8
3	Nabil Bank	8,324	1,352	16	7,802	557	7	8,114	450	6	(56)	(22)
4	Nepal Investment Bank	2,429	201	8	2,714	130	5	5,922	117	2	(42)	(59)
5	Standard Chartered Bank	5,681	297	5	5,696	276	5	6,000	248	4	(7)	(15)
6	Himalayan Bank	9,015	1,367	15	9,557	798	8	10,845	1,093	10	(45)	21
7	Nepal SBI Bank	4,188	483	12	4,584	290	6	4,796	562	12	(45)	85
8	Nepal Bangladesh Bank	7,359	614	8	8,084	1,275	16	7,962	1,013	13	89	(19)
9	Everest Bank	2,999	118	4	4,044	42	1	5,050	111	2	(73)	110
10	Bank of Kathmandu	4,286	325	8	4,890	397	8	4,856	421	9	7	7
11	Nepal Credit and Commerce	2,889	547	19	2,878	1,155	40	3,396	701	21	112	(49)
12	Lumbini Bank	1,786	278	16	2,285	442	19	2,619	303	12	24	(40)
13	NIC	2,618	132	5	2,369	193	8	2,563	171	7	61	(18)
14	Machhapuchhre Bank	499	5	1	680	71	10	1,496	31	2	1,051	(80)
15	Kumari Bank	266	-	-	1,127	14	1	2,138	36	2	-	34
16	Laxmi Bank	-	-	-	124	-	-	776	-	-	-	-
17	Siddhartha Bank	-	-	-	-	-	-	629	-	-	-	-
B	Subtotal	52,340	5,719	11	56,835	5,640	10	67,159	5,256	8	(9)	(21)
	Grand Total (A+B)	100,134	28,429	28	103,125	31,363	30	111,901	32,227	29	7	(5)

Note:

- Consolidated NPA data of Development/ Co-operative banks and finance companies are not available.
- Very high level of impaired debt with government and semi-government banks (Rastriya Banijya Bank and Nepal Bank Limited) is attributable to political interference, reckless and subjective lending, lack of accountability etc.)
- Kumari Bank, Laxmi Bank and Siddhartha Bank are established since about 2/ 3 years.
- **Sources of major problems in credit risk management as revealed by our study are stated below:**
 - i. Financials statements (including audited) do not reflect a “true and fair view” of the business entity due to creative accounting etc. The audited financials statements as submitted by the customers do not reflect details relating to (a) encumbrances ‘charges’ on the company’s current/ fixed assets plus to whom they are charged (b) details of group company lending/ borrowings (c) contingent liabilities (d) accounting policies (e) status on Income Tax assessments etc. These should be made mandatory to be included in the annual financial statements.
 - ii. Delegation of lending authority is based on seniority and not on competence of the concerned officials.

- iii. No exchange of credit information/ lack of transparency among the competing banks giving rise to multiple banking (same customer having facilities with different banks) contributing to excessive financing, double financing, diversion of funds, flight of capital, asset coverage shortfall etc.
- iv. Absence of:
 - a. risk based pricing methodologies
 - b. customer risk rating models
 - c. facility risk rating models
- v. Lack of appreciation of the need for manning the operations with skilled/ professionals as most of the banks are set up by Promoters who are traders.
- vi. Pronounced name lending
- vii. Collateral based lending instead of need based/ cash flow based lending
- viii. The Blacklisting guidelines of the Regulator contributes, in a way for creating new NPAs due to spread of contamination.
- ix. Acute dearth of experts/ professionals in finance, legal, business management etc.
- x. Over banked centre contributing for severe competition and price cutting.
- xi. Lack of corporate governance.
- xii. Permissive banking practices including names lending, multiple banking etc.
- xiii. Macro level scenario of political instability, slow growing economy, small domestic market.
- xiv. Ineffective Judiciary
- xv. Cross border risk - disappearance of promoters
- xvi. Inadequacy of law to deal with financial crimes like cheating, misfeasance etc.

1.2 Role of Regulator

Nepal Rastra Bank, as the Regulator for the financial system has a crucial role to oversee the health of the financial system and to issue necessary guidelines from time to time. It has also to co-ordinate with the Government machinery for bringing in the necessary legislations, carry out amendments to the legislation etc. Strong Regulator is a must for the effectiveness in the functioning of the banks / financial institutions and for the health of financial system.

Requirements of the Regulator are manifold and a few are stated below:

A) Major Prudential Norms:

- The regulator has laid down various prudential norms some of which are as follows:
 - a. Capital Adequacy – 11% of which tier 1 has to be minimum 50%
 - b. Single/Group Exposure Limit- 25% for funded exposure and 50% for non-funded exposure of Core Capital
 - c. Sectoral Exposure Limit- not to exceed 100% of Core Capital
 - d. Income Recognition on Credit Portfolio- on cash basis only
 - e. Loan Classification and Provisioning on funded outstanding

Category	Criteria	Required Provision
Standard	Performing	1%
Sub-standard	Past due 3+ to 6 months	25%
Doubtful	Past due 6+ to 12 months	50%
Loss	Past due above 12 months	100%

Other Major Requirements

- Asset Liability Management Committee - to meet periodically to review market risks (*interest rate, liquidity and forex risk*)
- Audit Committee headed by non-executive director - to meet periodically to review audit inspection reports etc.

Disclosure Norms:

NRB requires the banks to disclose the following while presenting the financial statements to the annual general meeting for approval:

1. Details of loan grades, provisions under each grade and net loans
2. Loans given to the director, promoter and employees, if any
3. Maturity profiles of loans
4. Details of off balance sheet items (non-funded facilities)
5. Basis of recognizing income on loans
6. Yield of loan portfolio
7. Securities taken against loans
8. Details of waived loans and interest
9. Non-Banking Assets and provision thereto

Disclosure norms are of international standards.

- Accounting policies of the banks and financial institutions are required to be stated in the annual financials relating to income / expense recognition, translation of foreign currency transactions, provision for possible loan losses, write off, fixed assets' depreciations & amortizations, details of investment along with basis of valuation etc.
- ***Supervision and Inspection:***
 - Off-site
 - On-site

B) Directed Lending

It is mandatory for the commercial banks to comply with directives of the Regulator with regard to lending to Productive sector and Priority Sector. They are stated below:

- 40% to Productive sector

Productive sector includes priority sector; advances to and investment in shares and debentures of small, medium and large industries as defined in industrial enterprises act and government/semi government or private sector agricultural, insurance, go-down, banking or like companies; pre-shipment credit; export bill financing; advances for purchase of public transport means and agricultural equipment.

- 7% to priority sector including 3% under deprived sector

Priority sector includes micro and small enterprises which help increase production, employment and income as prioritized under the national development plans with an objective to uplift the living standard of general public particularly the deprived and low income people by progressively reducing the prevalent unemployment, poverty, economic inequality and backwardness. Micro and Small Enterprises are classified into Agricultural enterprises, Cottage and Small Industries and Services. In addition, other businesses as specified by Central bank from time to time are also included under Micro and Small Enterprises. Further classifications are:

- Agriculture and Agro-based business
- Cottage and Small Industries
- Services
- Other Business

Deprived sector includes low income and particularly socially backward women, tribes, lower caste, blind, hearing impaired and physically handicapped persons and squatters family. All credits extended for the upliftment of economic and social status of deprived sector up to the limit specified by Central Bank (Rs 30,000) is Deprived Sector Credit which is integral part of priority sector also comprising of micro credit programs and projects.

Outstanding as at mid-January 2004

	<i>Rs Million</i>
Priority Sector	7,757.44
Deprived Sector	<u>2,393.63</u>
Total	<u>10,151.07</u>

C) Role of Deregulation

- Nepal Rastra Bank deregulated the following:
 - i. Interest rate on deposits and advances:
 - ii. Directed Lending percentage from 12 to 7.
 - iii. Cash reserve ratio requirement percentage from 12 to 5 over the period.
 - iv. Foreign exchange pricing

These measures have improved the liquidity in the financial system and enhanced the degree of competitiveness. On the other hand, deregulation of interest rate has given rise to rate-war among the banks and FIs.

D) Over the years, Nepal Rastra Bank, the Regulator, has come a long way in improving the overall control and supervision of the financial system. It has also paved the way for financial sector reforms and de-regulation to some extent. Nevertheless, there appears to be immense scope for enhancing/ improving qualitatively its role. Views of the cross-section of the bankers, lawyers and other professionals are briefly stated below:

- i. The Regulator is not strong enough and as such is not effective in overall supervision and control of the financial system, contributing for non-compliance to the directives etc. to a greater degree. Non-compliance is not dealt with punitive penalties.
- ii. Dire need to induct professionals and experts in different branches of functioning of the Regulator through outsourcing or otherwise.
- iii. Facilitate imparting effective training facilities by revamping the training centre especially taking into account the dearth of skilled manpower in the financial system.
- iv. Initiate necessary actions for developing forex/ money/ capital markets for overall broad basing and advancement of the financial system on sound footing.
- v. Effectively coordinate with various government machinery to usher an era of transparency in financial reporting by corporates and other business entities through revamping/ restructuring Tax laws, Company law etc. and for bringing in required reforms in the judicial system to protect the rights of the secured creditors vis-à-vis facilitating recovery of the dues of the banks and financial institutions.
- vi. Arising out of permissive banking environment, lack of transparency amongst the participants of the financial system etc, NRB could lay down the guidelines for strict compliance relating to credit approval/ administration including methodologies consortium lending, for mandatory exchange of information between the banks and financial institutions etc.
- vii. Set-in-motion the processes for ascertaining/ determining the adequacy or otherwise of the credit risk assessment and management procedures in the financial system and to initiate corrective actions.
- viii. Effectively coordinate with the concerned authorities for setting up credit information/ credit rating agencies.

2. Credit Information Systems:

- Credit Information Bureau under the auspices of Nepal Rastra Bank, is the provider of information on the borrowings by the corporates and other business entities availing credit facilities in the financial system. It is mandatory for the banks and FIs, before sanctioning/ enhancing/ review any credit facilities beyond Rs. 1 million per party, to seek information from the CIB as to the borrowings from the system. CIB is expected to provide the data within the time frame to the applicant bank or FIs.
- The response provided by the CIB merely indicates the aggregate amount of the borrowings by the business entities without any further inputs as to the terms of the borrowings, the security offered and names of the lending institutions. Therefore, such response is not of great assistance to the banks and FIs. Moreover, the information contained in the response is not updated (generally it may be 4 – 6 months old).
- **The financial system functions under a severe handicap due to absence of:**
 - i. Credit Information agency for providing meaningful updated credit reports on the business entities
 - ii. Credit rating agencies
 - iii. Lack of transparency in the financial system for exchange of information about the business entities availing credit facilities.

Thus, the System is exposed to high degree of credit risk. It is appropriate to say that the Regulator has a role to coordinate with the concerned authorities for setting up credit information agency and credit rating agency. It should also make it mandatory for the banks and FIs to exchange information about the business entities including the credit lines with a punitive penalty for non-compliance.

3. Credit Risk Transfer (CRT) and new financial instruments

- Notwithstanding that there is a felt need for credit risk transfer instruments and institutions the same is conspicuous by its absence in Nepal. This arises due to non-availability of required experts and professionals vis-à-vis lack of depth in the Financial system.
- Credit Guarantee Corporation (CGC) was set up in 1974 with the objective of encouraging finance to the “Priority sectors”. CGC insures loans made in the priority sector up to Rs. 2.5 million. It takes 1% premium of outstanding loan and reimburses maximum 75% of insured sum in case of default. However, if any amount is recovered from the borrower after settlement of claims, 75% of the same is to be refunded to CGC.

TABLE 5

Financial Health of Major Banks & Financial Institutions (Based on CAMELS)

Figures as at Mid July 2003

	RBB	NBL	ADB	HBL	Nabil	NBB	NIB	SCBL
Capital Fund (Rs Million) *	(20,502)	(732)	2,033	1,436	1,804	1,039	741	1,528
Capital Adequacy Ratio (%)	(45)	(29)	N.A.	11	13	8	9	14
Asset Quality (NPL%)	60	60	Aroud 22 (#)	10	6	13	2	4
Management *	Central Bank	Central Bank	Government	B O A R D O F D I R E C T O R S				
Earnings (%)								
ROA (Net Profit / total Asset)	(18.5)	(0.6)	0.0	0.9	2.4	0.6	1.3	2.4
ROE (Net Profit / Net worth)	(27.7)	(2.6)	0.8	24.7	36.3	11.4	22.3	41.0
Liquidity Ratio *	28	47	8	50	53	32	27	57
(Cash, bank balances, Call Money and Government Securities / Deposit and Borrowings)								
Sensitivity to Market Risk	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

* As of Mid July 2004

(#) Calculated based on NBA volume and assuming that LLP is 50% of NPL

4. Financial Institutions Suspended/Closed recently

Nepal Rastra Bank has taken over Management of following commercial banks:

- Rastriya Banijya Bank
- Nepal Bank Limited
- Lumbini Bank Limited

Nepal Development Bank has been barred from taking deposits. Similarly, NRB has cancelled the license given to 2 cooperatives (Shree National Development Cooperative Society Limited and Shree Nepal Cooperative Society Limited) and has barred United Savings and Credit Cooperative Limited from collecting deposits.

5. State bail-outs of banks, state subsidies to state banks and interference in management

So far, there is no bail-out of the banks by the State. However, the government has taken financial assistance from the World Bank and DFID to revamp and turnaround ailing banks: *Nepal Bank Limited, Rastriya Banijya Bank, Agricultural Development Bank and Nepal Industrial Development Corporation.*

In this regard, Nepal Rastra Bank has outsourced management of Nepal Bank Limited and Rastriya Banijya Bank. With regard to ADB, NRB is in the process of hiring experts for taking necessary actions. NIDC is being liquidated.

6. Potential Sources of Systemic Risk:

- No Legislation for registering the security transactions of the banks and FIs to determine the priority of the charges.
- Absence of credit rating agencies
- Lack of alternative investment opportunities coupled with lack of depth in secondary market/ foreign exchange market.
- Cross border risk – flight of capital
- Absence of credit risk transfer instruments/ institutions
- Representative body of the banks i.e. Nepal Bankers Association is more or less defunct due to its ineffective functioning including lack of coordination.

Conclusion and Recommendations:

The weaknesses/ inadequacies and ineffectiveness of Nepal's Financial/ Judicial Systems and their impact on the credit risk management systems vis-à-vis financial health of the Banks and Financial Institutions are stated in the preceding paragraphs. This underscores the need for building further on financial sector / legal reforms and also the catalyst role the Regulator has to play. As the Legislation relating to Insolvency has not gained required popularity/ acceptance by the financial sector, the expected inter-face between the credit risk management system and the insolvency system is practically absent. The Government has to take the call not only for accelerating the pace of Reforms, but also for setting up required institutions - for Credit Rating, for Credit Risk Transfer etc. Nepal, though a small country has, a mammoth task ahead. In this regard, the recommendations are as follows:

1. The law relating to insolvency, asset management company, security transaction registration, anti money laundering should be put in place expeditiously.
2. Besides setting up commercial benches in the courts, imparting required skills etc. to the practicing lawyers and presiding judges is a must.
3. Increase the number of Debt Recovery Tribunals and provide adequate manpower.

4. Rationalize tax rates and tax laws to encourage transparency in the financial reporting.
5. Legal provisions relating to fraud, forgery etc. should be rationalized and made much more effective and exemplary to facilitate access by the financial sector.
6. Rights of secured creditors to be paid out of the concerned security should be held paramount and should not be interfered even by the Government with regard to its dues.
7. There should be enabling provisions for the banks/ FIs to seek orders from the competent Court restraining the borrowers/ guarantors from encumbering/ alienating/ transferring the assets offered as security to the banks, during the auction notice'/ recall notice' period and or during the course of judicial proceedings for recovery of the banks' dues.
8. Insolvency practice should be professionalized as envisaged in the proposed Ordinance and for this purpose experts from overseas be invited for imparting required training, skills up-gradation etc.
9. Besides pursuing financial sector reform relating to deregulation, there is a dire need, taking into account high level of impaired debt in the banking sector caused by permissive banking practices etc., to introduce regulations in specific areas such as norms for credit approval, mandatory consortium lending and exchange of information amongst the banks and financial institutions.
10. Set-in-motion the processes for ascertaining/ determining the adequacy or otherwise of the credit risk assessment and management procedures in the financial system and to initiate corrective actions.
11. Scale down single /group /sectoral exposure limits to modulate concentration risk in the financial system.
12. Regulator to set up training facilities for upgrading the required skills in the financial system.
13. Regulator and the Nepal Bankers Association should effectively co-ordinate for setting up Nepali Banking Institute for professionalizing the banking sector by drawing up curriculum for banking education and diploma examinations.
14. Regulator should tone down/ moderate the rigours of Blacklisting guidelines (more aptly described as Draconian in its content and applicability).
15. Strengthen off/on site supervision by the Regulator to evaluate the efficacy of credit risk management systems including credit approval process, post disbursement procedures, recovery management etc.
16. Regulator to coordinate for setting up of credit risk transfer institutions and credit rating agencies and facilitate to develop credit risk transfer instruments.
17. The banking community should join hands for rendering their representative body a proactive and sensitive organization capable of taking up key issues affecting the banks with concerned authority.
18. Need to open the doors for professionals and experts from other countries in the area of law, finance, accounts and audit.
19. Recommendations relating to Nepal Accounting Standards and Nepal Auditing Standards need to be implemented expeditiously for compliance by the corporates.
20. Initiate necessary actions for developing forex/ money/ capital markets for overall broad basing and advancement of the financial system on sound footing.