

IX

ORGANISATIONAL EVOLUTION AND STRATEGIC PLANNING

9.1 The Reserve Bank of India Act, 1934, specifies that the Bank is a corporate body with special powers and obligations for serving national interest. Establishment of the Issue and Banking Departments was the statutory responsibility of the Reserve Bank and these were set up at inception of the Bank following the Bank of England model. The other departments have been set up for performance of functions that devolved on the Bank from time to time. The organisational transformation of the Reserve Bank of India, especially since independence has been marked with flexibility in responding to domestic necessities and compulsions, on the one hand, and evolving best international practices, on the other. The organisation has, over the years, evolved successfully with the changing economic and financial environment.

9.2 The Preamble to the Reserve Bank of India Act, 1934 stated that the Bank had been constituted 'to regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage'. The Act provided for in-built flexibility, extra powers and manoeuvrability to the Bank in extraordinary circumstances. This chapter attempts to capture the organisational adaptability of the Reserve Bank to emerging economic scenario against the backdrop of the fundamental concern of the Bank for growth with price stability. Evolution of the organisational structure that has emerged in response to functional transformation is presented chronologically (Appendix 9.1), as far as possible.

I. CONSTITUTION AND GOVERNANCE (1920s TO 1940s)

9.3 Following severe public criticism of government's inability to manage the currency and exchange rate in line with public expectations, the Royal Commission on Indian Currency and Finance, 1926 recommended separation of control of currency and credit from the Government and proposed constitution of a central bank called Reserve Bank of India for undertaking these functions. The debate, however, got submerged in the political undercurrents of the time. The Commission had also suggested that

the central bank should undertake the functions of bankers' bank. The Report of the Indian Central Banking Enquiry Committee (1931), followed by the White Paper on Constitutional Reforms (1933), facilitated execution of the proposal for setting up of a Reserve Bank, free from political influences.

9.4 The India Office Committee's Report (IOC, 1933) recommended a shareholders' bank in order to eliminate fear of political interference. The Committee felt that the state capital would be a direct impetus to political dominance. It suggested that the composition of the Board be kept small to stress the relevance of individual responsibility. The contemporary international developments in central banking structures also profoundly influenced the shareholders' ownership structure of the Reserve Bank. The recommendations of IOC Report were endorsed by the London Committee which was set up subsequently to draft a Reserve Bank Bill. The Reserve Bank of India Bill (1933), underscored the desirability of entrusting the control of currency and credit to an independent authority which could act with continuity. The Bill was adopted as the Reserve Bank of India Act in 1934 in terms of which the Bank commenced operations in April 1935. Currency and exchange rate management were the core functions of the nascent central bank and received far more attention than banking management. In line with the intent, the significant aspect of the governance structure of the Bank was 'independence' from the Government in its day to day functioning.

9.5 The Act provided for constitution of a Central Board of Directors to be entrusted with the general superintendence and direction of the affairs and business of the Bank (RBI, 1970). The Board consisted of a Governor, two Deputy Governors (appointed by the Governor General in Council), four Directors (nominated by the Governor General in Council), eight Directors (elected on behalf of shareholders), and one Government official (nominated by the Governor General in Council but with no voting power). Representation of commercial bodies on the Board at this point was not considered necessary. Though there were no statutory provisions for representation of various economic interests, the judgement of Governor General in Council was relied

upon to remove any under representation or non-representation of the important sections of the society. The aim was that the governing body had the benefit of experience and special knowledge of representatives of special interests (RBI, 1970). The Central Government, that was the appointing authority for the Governor and Deputy Governors, however, could supersede the Central Board to safeguard against failures of the Board to carry out central banking business entrusted to it. Though the Act provided for specific provisions under which the Governor or Deputy Governors could be dismissed, the Central Government reserved the powers of dismissal without assigning any reasons or justification for the same in this regard. The Act endorsed establishment of five Local Boards [substituted by four as per the Reserve Bank of India (Amendment) Act no. 11 of 1947 after the termination of Burma Monetary Arrangement] to represent the respective geographical divisions that reflected the territorial or economic interests adequately. Two way communication between the Central Board and Local Boards (with members nominated by Central Board) was deemed relevant so that Local Boards could carry out the duties assigned to them by the Central Board as also enable them to advise on the matters referred to them. The Central Board was mandated to hold meetings not less than six times in a year and at least once in every quarter. The Governor presided over these meetings and also had a casting vote.

9.6 The Central Board of Directors held their first meeting on January 14, 1935 in Calcutta. The organisational preliminaries were finalised in the second meeting of the Board in Delhi in February 1935. The commencement of Bank's operations on the first day of the fiscal year (April 1, 1935) was a matter of administrative convenience for change over of Government accounts from the Imperial Bank to the Reserve Bank.

9.7 The organisational structure of the Bank comprised: (a) Central Office which included Secretary's Section, responsible for the secretarial work for the Governor and the Central Board, management of public debt, ways and means

requirements of Central and Provincial Governments and matters affecting policies of the Bank; and Chief Accountant's Section that maintained and supervised the Bank's accounts in the Issue¹ and Banking Departments², dealt with the expenditure matters, remittance of treasure, indent and distribution of notes and coins, etc., besides managing staff, personnel and premises details; and (b) Agriculture Credit Department which examined the problems of agricultural credit, and also coordinated operations of the Bank with the agencies engaged in extending such credit. The Central Office of the Bank, which was initially located in Calcutta, was permanently shifted to Bombay in December 1937.

9.8 At the outset itself, the Legislature attached considerable importance to the issue of rural finance. The Joint Select Committee (JSC, 1933) suggested preparation of a statutory report on indigenous bankers which could focus on linking of indigenous bankers with the Reserve Bank to ensure their eventual amalgamation into the modern banking system, so as to improve the informal machinery of agricultural finance. This was considered imperative for it would otherwise be impossible for the Reserve Bank to exercise full control over currency and credit and for the rural masses to derive advantages of banking and credit facilities on reasonable terms (RBI, 1970). Rediscounting bills of exchange and promissory notes issued or drawn by either the scheduled banks or cooperative banks for financing of seasonal agricultural operations, marketing of crops and extending loans to these effects formed integral part of the provisions of the Reserve Bank of India Bill, 1933. Following the proposals of JSC, the amended Bill paved way for establishment of a separate rural credit department, viz., Agriculture Credit Department (ACD, 1935). It was well recognised that the cooperative movement was the most suitable solution for addressing the credit needs of agriculturists, and further that the cooperatives could go well beyond the credit availability and cover other aspects of life of peasants by encouraging the use of better quality seeds, manures, etc., at lower cost and promote lessons of better farming and better living. In February 1937, a Statistical Section was started within the ACD, which was entrusted with

¹ Divided into Treasurer's Department (comprising the Issue branch and Exchange branch) and General Department (sub-divided into Registration Branch, Cancelled Note Verification Branch, Claims Branch, Resource Branch and Accounts Branch). Provision was also made for maintenance of currency chests and small coin depots by the Reserve Bank at branches of the Imperial Bank where there were no offices of Banking or Issue Departments of the Reserve Bank.

² Organised into five Departments, viz., Public Accounts Department, Deposit Accounts Department, Public Debt Office, Securities Department and Share Transfer Department.

the responsibilities of collecting and analysing data on scheduled banks besides preparing periodical reports on domestic money and financial markets. In April 1937, the Section took over the publication of 'Monthly Statistical Summary' from Central Accounts Office, Calcutta. The Section also earned the distinction of publishing the first issue of the "*Report on Currency and Finance*" covering the years 1935-36 and 1936-37 replacing the annual report of the office of Controller of Currency, which was wound up in October 1937. The ACD was further expanded in January 1938 by creating a separate Banking Section to look after the scheduled bank business.

9.9 In order to strengthen internal controls and tighten the systems and procedures with a view to undertake the anticipated increase in responsibilities, Inspection Department was constituted in the Central Office as early as in 1935. This Department assessed the achievements and performance of Central Office Departments and Regional Office Departments of the Bank, reflecting thereby a system of self assessment. The Department from time to time made suggestions to improve the overall performance by critically analysing staff requirements based on increase in the workload, and this served as feed back to top-management of the Bank.

9.10 Till this point of time, the Bank's statutes did not provide for any detailed regulation of commercial banking operations except for minor provisions in the Indian Companies Act, 1913, governing the companies engaged in business of banking. There was virtual absence of specific laws and machinery in this regard. The first attempt towards banking legislation could be traced to passing of Indian Companies (Amendment) Act, 1936. Expansion of the banking network across the country was viewed as a significant achievement considering the necessity of credit availability for development of various sectors of the economy. Since the banking crisis of 1913-14, wherein many joint stock banks failed, subsequent bank failures in the following decades were largely individual incidences resulting from endemic weakness and deficiencies to which several banking companies were prone to in the days of unregulated banking (RBI, 1970). The unhealthy spread of branch network and lapses in the scrutiny provisions for operations of banking institutions were exposed by the failure of Travancore National and Quilon Bank in the middle of 1938. Following the crises, special officers were deputed by the Reserve Bank for inspection of banks, and this enabled the Bank to exercise control over the banks in terms of obtaining

information. It, however, took the Reserve Bank and the Government a decade to formalise the comprehensive regulatory provisions and the Banking Companies Act was enacted in 1949, which was renamed as Banking Regulation Act (BR Act), 1949 in the year 1966.

9.11 The economic and financial problems faced by the country during the Second World War were enormous and this necessitated creation of a specialised Department to take control over the foreign exchange transactions. As a result, the Exchange Control Department was constituted in 1939. Exchange control which was *hitherto* the domain of the Central Government was passed on to the Reserve Bank for the sake of organisational convenience. The subsequent period witnessed expansion of the Bank's functions and responsibilities in the area of exchange control. Depending upon the volume of work, with headquarters at Bombay, branches of Exchange Control Department were opened at other centres, viz., Calcutta, Lahore, Kanpur, Rangoon and later at Karachi.

9.12 In performance of its role as banker and advisor to the Government, the Reserve Bank undertook the foreign exchange and currency remittance operations, managed public debt and arranged for issue of fresh loans. The Central Government also deposited their cash balances with the Bank free of interest. The operational terms and conditions for execution of these functions were settled with mutual consent. In terms of these arrangements, wherever the Reserve Bank did not have offices, the Imperial Bank branches were delegated such functions on the considerations of safety of public funds, adequacy of their network of branches and trustworthiness of their staff. Further, where there were no Imperial Bank branches, Government business was entrusted to any other bank on request of the Government, though responsibility for the funds continued to be with the Reserve Bank.

9.13 In execution of these diverse responsibilities, the Reserve Bank inherited most of its staff from the office of Controller of Currency, Government of India and the Imperial Bank. The necessary competencies for carrying out these functions in the nascent years were acquired during the course of operations. Areas of work such as currency management involved inventory and logistics, and people comfortable with these processes were required for undertaking these functions. Qualities such as loyalty, integrity and trustworthiness were considered critical for such jobs.

Therefore, separate recruitment policies were designed for the Cash Department and the general stream. Banking operations, however, were more formalised and the desirable competencies in this area were familiarity with accounting procedures, while policy making was reserved for the higher echelons.

9.14 A landmark organisational achievement for the Reserve Bank of India was appointment of the first Indian Governor, Sir C.D. Deshmukh, on August 11, 1943. Against the backdrop of uncertainties of frequent political power transfers, dismal growth prospects, after-effects of partition of the country, shift in taxation policies directed towards social causes, besides aiming to counter inflation, promote production and investment, there was one stabilising force that there was no change in the Governorship of the Bank till end-June 1949 and this imparted continuity in fiscal as well as monetary policy making (RBI, 1970). The post-War period was marked by reorganisation of existing Departments to tackle the increasing work pressures.

9.15 Economic intelligence and research assumed centre-stage in the backdrop of complex problems posed by the War years and partition of the country. Solution to these difficulties lay in collection, organisation and analysis of data on money, finance, banking, foreign exchange and other macroeconomic matters for normal functioning of the Bank. There was, thus a move towards publication of number of periodicals and reports such as Monthly Statistical Summary, Report of the Central Board to the shareholders, Weekly Report to the Committee of Central Board on financial conditions, Review of Cooperative Movement in India, and the like. Further, several special studies on national and international finance, sterling investments in India, repatriation of India's sterling debt, and compilation of India's international balance of payments and post-War planning, *etc.*, were also initiated. In recognition of the expansionary pressures, major organisational restructuring took place in August 1945. The ACD was reorganised into three separate sections, *viz.*, (i) Agriculture Credit Section, (ii) Statistical and Research Section to undertake various studies in monetary and fiscal areas, and (iii) Banking Section that took over the functions of maintenance of records of scheduled banks' daily balances, recovery of penal interest on shortfall in statutory balances and dealing with loan applications of scheduled banks from the Central Office of the Bank. In order to do justice to the diversification of activities of the

Bank in the areas of agricultural credit, banking operations and economic research, the later half of 1945 witnessed another round of reorganisation by upgrading the Statistical and Research Section into the Department of Research and Statistics (DRS), while also carving out two separate divisions, namely Economic Intelligence and Economic Research within the Department for the purpose of organising data compilation, analysis, publishing research papers, providing inputs for policy formulation and advising the Government on economic issues. The Banking Section was revamped into Department of Banking Operations, while the ACD remained a separate Department. This reorganisation was aimed at the Bank playing a proactive role in formulation of monetary and public debt policies, regulation of banking and promotion of financial institutions and functioning as the Government's economic and financial counselor in the post-War years. The establishment of the Department of Research and Statistics owed much to the initiative of the Governor, Sir C.D. Deshmukh (RBI, 1970).

9.16 A significant milestone in the year 1945 was Reserve Bank's active participation in the consultations and deliberations for establishment of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). These initiatives facilitated India becoming a founder member of these institutions. The Government of India, in consultation with the Reserve Bank, appointed one Executive Director for India each for the IMF and the World Bank. Realising the relevance of compilation of Balance of Payments Statistics for India, a Balance of Payments Division was created within the Department of Research and Statistics in 1948. This ensured compliance with the obligation to supply information and statistics to the IMF by the Reserve Bank. The Bank for the first time conducted a census of India's foreign liabilities and assets as on June 30, 1948 and data relating to India's International Investment Position were released in 1950.

9.17 The first two decades after the country's independence witnessed profound changes in Indian banking. These decades marked a period of consolidation and saw catalytic efforts on the part of the Reserve Bank in terms of institution building. These initiatives triggered the growth and development of several specialised institutions. This also enlarged the sphere of the Bank's operations beyond core central banking and focused squarely on the developmental role.

9.18 The year 1949 marked two significant events in the banking history of the country, viz., the nationalisation of the Reserve Bank and passing of the BR Act, 1949. While the former sparked off efforts for reorienting the Bank's operations towards meeting the aspirations of Independent India, the latter empowered it with comprehensive command for supervision and regulation of the entire banking system. The provisions of the Act included control over policies of the banks regarding advances; comprehensive licensing system; submission of periodic returns by the banks; and preparation of inspection reports based on scrutiny of books and accounts of the banks by the Reserve Bank. Significantly, the Act also required the Reserve Bank to prepare and present a statutory annual report to the Government on "*Trend and Progress of Banking in India*". The Department of Banking Operations by this time was well equipped to take on the duties entrusted to it under the Act.

II. FUNCTIONAL AND ORGANISATIONAL EVOLUTION (1950s TO 1970s)

9.19 The decades of 1950s to 1970s are marked by many distinctive events. Following the enactment of the BR Act, 1949, the Reserve Bank made considerable progress in liberalising credit facilities to cooperative institutions. Further, setting up of the Rural Banking Enquiry Committee (1949) was a milestone in the field of rural finance. On recommendations of the Committee, the ACD was strengthened and the Department of Banking Development was set up in 1950 which played a proactive role in developmental pursuits of the Reserve Bank and also attended to matters relating to industrial finance. In order to formulate integrated policy with regard to agricultural credit, the All India Rural Credit Survey (1951) was conducted under auspices of the Bank. These measures were directed at extending banking facilities to semi-urban areas; address the problems of rural finance; deal with financing difficulties of medium and small scale industries (State Industrial Finance Corporations were established for the purpose); and mobilisation of rural savings. The work of inspection of the banking system was decentralised by opening offices of the Reserve Bank at various important centres in the country to ensure continuity of contact between the inspectorate and the banking institutions.

9.20 Against the backdrop of ambitious targets set out in Second Five Year Plan for industrial development, the need for availability of organised

credit to industry steered the policies of the Bank towards development of financial infrastructure in this direction. The earliest initiative of the Bank to this effect came about with formation of Industrial Finance Corporation of India (1948). This was followed by passing of State Financial Corporations Act, 1951 for establishing similar bodies at state levels. Industrial and Investment Corporation of India (ICICI, 1955) also extended the credit outreach of the industrial sector with a focus on financing the private sector. Besides, this period witnessed transformation of the Imperial Bank of India into the State Bank of India (SBI, 1955) and its Associate Banks as subsidiaries. There was, therefore, a visible attempt to expand the banking network and extend credit to non-banked semi-urban and rural areas. This move was also expected to promote lending to preferred sectors. Further expanding the arms of Reserve Bank of India, the Banking Companies (Amendment) Act, 1950 incorporated an important provision regarding licensing to opening of bank branches outside India. Further, another amendment to the Act in 1959 enlarged the scope of inspection to include inspection of foreign branches of Indian banks by the Reserve Bank (GOI, 1972). In addition, in order to bring the activities of non-banking companies into the ambit of regulation to protect depositors' interests, the Department of Non-Banking Companies was established in March 1966.

9.21 The full-fledged offices of Issue Department were established in Delhi and sub-office at Guwahati after partition of the country to address the administrative problems arising out of servicing of currency chests in these areas. Enactment of the Banking Companies Act, 1949 generated enormous legal work for the Bank to handle. A Legal Division was constituted (1950) to enable the Bank to cope with increasingly complex legal issues in discharge of its statutory functions. Further, in light of extension of the Reserve Bank of India Act to the States of the Indian Republic, the Bank encountered substantial legal issues relating to management of public debt of the State Governments. In this backdrop, the Legal Division was accorded the status of Legal Department (1960). Further, for provision of adequate infrastructural facilities, the Premises Department was set up in 1965 by enlarging the Premises Section in the erstwhile Chief Accountants Office.

9.22 After getting a grip on traditional central banking functions and making headway in the spread of rural and industrial finance, there was growing realisation for establishing specialised institutions and

hiving off some of the responsibilities, to be able to gradually refocus on the core central banking pursuits. Provisions were made to nominate officers on Governing Boards of associations engaged in trading in bullion, shares, *etc.*, in light of the fact that Reserve Bank's advice was sought on matters relating to such trading in view of close contacts of the Bank with these markets. The enactment to regulate transactions in securities was undertaken by Government of India in close coordination with the Reserve Bank in 1956 (RBI, 1970). Subsequently, the Bank's officers were also nominated on the Boards of East India Cotton Association and Bombay Oilseeds Exchange.

9.23 For the purpose of constantly improving the institutional machinery, the Bank established Deposit Insurance Corporation (1962); Agriculture Refinance Corporation (1963) as a subsidiary of the Bank; Industrial Development Bank of India (1964); and Unit Trust of India (1964). Credit Guarantee Corporation of India Ltd. (1971) was promoted by the Reserve Bank with two Board members from within the Bank.

9.24 During the War years, window dressing of accounts; opening of new banks with low intrinsic strength; adoption of unsound methods to attract deposits; unlawful interest interlinks between banks, insurance companies and industrial concerns were some of the disquieting trends that were detrimental to depositors' interests. The post-War period called for comprehensive banking legislation for addressing these issues. Following this, the concept of 'Social Control' took root in 1967 with growing realisation that left to itself the private sector was not forthcoming in recognising its larger responsibilities towards the society. The Government felt it necessary to exercise certain amount of authority over the banks to serve the cause of economic growth and facilitate credit access to productive sectors of the economy. In pursuance of this goal, the Indian Government nationalised fourteen major private sector banks in 1969 with a view to ensure branch expansions in relatively sparsely banked areas. The Reserve Bank, during this period, was trying to focus on credit planning and striving to guide the commercial banks towards assessment of quantum of season-wise, and sector-wise credit disbursal, *etc.* An important functional feature of credit planning was that the credit policy was decided in consultation with the bankers and monetary policy was regarded as adjunct of credit. 'Settlement of credit' was regarded as a major issue and credit allocation to certain preferred sectors was monitored scrupulously. Credit Planning and Banking Development Cell was

established in April 1970 to formulate the credit policy and monitor the Lead Bank Scheme which was introduced in 1969. The latter function was, however, subsequently transferred to the DBOD. The Cell that functioned as a part of the Secretary's Department was converted into an independent Credit Planning Cell in 1975.

III. STRUCTURAL REORGANISATION (1980s)

9.25 *Hitherto*, various crisis situations had induced policy makers to experiment with policies, to undertake reorganisation of the institutional structure from time to time and to change priorities as required, particularly in banking, exchange rate management and exchange controls. However, the Reserve Bank tried to exercise its strength of adaptability with a desirable degree of professionalism to meet the economic needs of the society. The fact remains that fiscal expansionism backed by societal concerns steered the focus of the Bank's policy initiatives towards containment of inflationary expectations and pressures during this period.

9.26 The rest of this section describes transformation in the organisational edifice of the Reserve Bank in the face of emerging requirements with the creation or elimination/ winding up of the Departments in the light of redefined role from time to time in response to the economic situations.

9.27 The administrative machinery of the Bank was expanded in the backdrop of increasing responsibilities. The Chief Accountant's Office was restructured (April, 1965) and this resulted in creation of new Departments. The first among these was the Department of Administration and Personnel (DAP). With multifold increase in responsibilities, the DAP was sub-divided in 1981 into (i) the Department of Administration (DA), and (ii) the Personnel Policy Department (PPD) with a view to leverage advantages of specialisation, avoid overlap of functions and redefine responsibilities. The second one was the Department of Accounts and Expenditure (DAE) which looked into internal accounts of the Bank, Government business and public debt, notes issue and control over foreign exchange reserves. The DAE was reorganised further into three separate units. First is the Department of Currency Management (DCM), which is concerned with devising policy measures to manage the core central banking functions of notes issue, currency management, establishing a network of currency chests and small coins depots. The Department endeavours to ensure availability of

adequate quantities and reasonably good quality notes and coins in the country. It works in close association with the Government and the note printing presses. It constantly reviews the security features of Bank notes and adopts anti-counterfeiting measures from time to time. Second is the Department of Expenditure and Budgetary Control (DEBC) which formulates the annual budget of the Bank and reviews expenditure and budgetary allocations, provident fund, pension fund and housing loan schemes of the employees. The third is the Department of Government and Bank Accounts (DGBA) which is entrusted with the responsibilities of acting as banker to the Government, accounting of public debt on behalf of Central and State Governments, maintenance of Bank's internal accounts, preparation of annual profit and loss account, and balance sheet of the Bank.

9.28 The Department of External Investments and Operations (DEIO) was carved out from the Foreign Accounts Division of the erstwhile Department of Accounts and Expenditure in 1986. This Department is concerned with the management and investment of foreign currency assets and gold, exchange rate of the rupee in line with the Bank's policy in this regard, handling external transactions on behalf of Government of India including transactions relating to the IMF, IBRD, ADB, *etc.*, the matters relating to gold policy, membership of the BIS and was also coordinating the banking arrangements between India and Russia.

9.29 In January 1982, with enormous expansion of Bank's activities, restructuring of the Departments again assumed focus. Accordingly, the Economics Department, established as an independent Department in 1959, was reorganised as Department of Economic Analysis and Policy (DEAP) to provide a better focus on economic issues while maintaining a viable size. The primary function of the Department is to provide advice and assistance to the Bank on policy issues particularly related to the economic and financial developments in India and abroad. The Department undertakes policy-oriented economic research and is a primary source of data relating to monetary aggregates, balance of payments, household financial savings, state finances and capital markets. The Department prepares weekly economic and financial reports for the Committee of the Central Board and maintains an up-to-date management information system on macroeconomic and financial issues for the top management and other operational Departments of the Bank. This is accomplished

through constant policy-oriented research activities covering broadly the entire spectrum of the financial system, besides the real sector.

9.30 The Department, which acts as the economic think-tank of the Bank, was divided into five major units, *viz.*, internal finance; international finance; prices; production, capital markets and national economic parameters; and a general unit. In view of the changing economic environment and increasing importance of the Indian economy in the global context, the structure of the Department has undergone several changes. In 1986, a Special Studies Unit was created to undertake research on different aspects of the economy. In 1991, the Development Research Group was created to undertake studies on issues of contemporary policy relevance jointly with external experts, especially from academia. In 1997, the Capital Market Division was carved out to focus on the primary sources of resource mobilisation in the capital market and to undertake analytical research on investment climate, stock market and institutional investors. Financial Markets Monitoring Unit was created in 2001 to coordinate the activities of fifteen Regional Offices of the Department and to serve as a nodal unit of market intelligence for the Central Board with inputs from the Regional Offices. Also, in 2001, consistent with recommendations of the Eleventh Finance Commission and 73rd and 74th amendments to the Constitution, emphasising strong and sustainable local bodies, the Division of State and Local Finances was carved out from the Division of Fiscal Analysis. The Division of Fiscal Analysis was simultaneously renamed as the Division of Central Finances.

9.31 The Department brings out seven major publications – five annual, *viz.*, the Annual Report, Report on Trend and Progress of Banking in India, Report on Currency and Finance, Handbook of Statistics on the Indian Economy and Finances of State Governments; a monthly Bulletin along with its Weekly Statistical Supplement and Reserve Bank of India Occasional Papers - a tri-annual research journal. It is interesting to note that the Department embarked on the publication of the Reserve Bank of India Bulletin in January 1947 – a monthly economic and financial journal, signifying that the Bank was well ahead of some of the contemporaries in this area. The analytical rigour, coverage and timeliness of these publications have established them as reference documents among the market participants, analysts, academics and international community. The initiatives of the Department in this direction have

been strengthened over time and the major strides are a theme based approach to the Report on Currency and Finance since 1998-99; introduction of quarterly reviews on 'Macroeconomic and Monetary Developments' since 2005; and subject-specific Handbook of Statistics annually.

9.32 Further, the Foreign Collaboration Survey and the survey on ownership pattern of Government Rupee securities are conducted by the Department. The role of the Department as advisor to the Government has appreciably enhanced over the years. In 1989, the economists from the Department were instrumental in estimation of gross fiscal deficit of the Central Government, the first ever attempt. A significant contribution of the Department was the expert inputs for the financial sector reforms in 1991, especially in the areas of fiscal and financial sector including banking and balance of payments. The Department played a key role in preparation of the Reports of three Working Groups on Money Supply. The Department was also actively involved in preparation of technical papers on fiscal issues pertaining to limits on public debt and stoppage of automatic monetisation of fiscal deficit in 1997. A recent major initiative is the technical support extended by the Department in formulating the draft for Fiscal Responsibility and Budget Management (FRBM) Act for the Central and the State Governments. The Department has provided insights on the issue of rising government guarantees in the form of a Technical Report on assessment of risks.

9.33 Besides the operational Departments within the Reserve Bank, the services of the officers of the Department are availed by the Government of India (Ministry of Finance) and other domestic organisations, International Financial Institutions (IMF, BIS, *etc.*) and foreign central banks on a continuous basis. The Bank's interface with most of the international bodies/expert groups such as the IMF, the BIS, the G-20 and various credit rating agencies, *etc.*, are generally handled by the DEAP.

9.34 The Department of Statistics was created in 1959 out of the erstwhile Department of Research and Statistics of the Bank with major objectives of conducting all-India surveys, analysis of corporate financial accounts, compilation of security price indices, preparation of flow of funds accounts and undertaking econometric studies. The Department was restructured and renamed as Department of Statistical Analysis and Computer Services (DESACS) in 1982 alongwith the erstwhile Economics Department when a few work areas were

interchanged between the two Departments. Three Regional Offices of the Department at Chennai, Kolkata and New Delhi were opened in 1985-86 to assist the Central Office. The Department underwent another structural change in 1995 with setting up of the Department of Information Technology (DIT). The DESACS has, over the years, developed expertise in design, development and maintenance of large statistical systems in the areas of banking, corporate finance and balance of payments; analytical research; and application of statistical methods of use to the Bank.

9.35 The major functions of the Department encompass collection, processing and dissemination of data on banking, corporate and external sectors; planning, designing and organising sample surveys; statistical research and analytical studies as inputs towards policy formulation; and decision-support to the top management. The Department collaborates with the Statistical Offices of the Government of India engaged in compilation of national accounts statistics, industrial statistics, price indices, *etc.* The Department is the only repository of detailed branch level data of the banking system in India, data on credit and deposits on census basis and ownership pattern of deposits, investments, *etc.*, on sample basis. These are used for deriving financial savings of the household sector in India and are also used in saving estimates prepared by the Central Statistical Organisation (CSO), Government of India. DESACS collects and compiles external sector statistics relating to exports, imports, external debt, external commercial borrowings, *etc.*, which provide key inputs for balance of payments and external debt statistics for which the Reserve Bank is the primary source. Periodical census and surveys are undertaken to compile data on foreign liabilities and assets for preparing the country's International Investment Position. A quarterly "Industrial Outlook Survey" is conducted in respect of the private corporate sector. DESACS also provides inputs for estimation of savings and investment of the private corporate business sector by the CSO.

9.36 In recent years, the Department has taken up new work areas such as compilation of International Banking Statistics, survey of software exports and maintenance of Special Data Dissemination Standards, *etc.* Creation of Centralised Data Base Management System (CDBMS, 1998), which offers a comprehensive database for the purpose of research is another milestone. The database was put in public domain

through the Reserve Bank web page in November 2004. Steps have also been initiated to conduct surveys on inflation expectations, capacity utilisation, etc., development of statistical indicators, improvement of methodology for projection of macroeconomic indicators, and introduction of an On-line Return Filing System (ORFS) for electronic submission of statutory and other data by the banking system. DESACS extends support to the operational Departments in the projects relating to information technology, data collection, processing and statistical analysis besides providing the services of its officers to other Departments within the Bank.

9.37 The Department brings out publications, viz., Statistical Tables relating to Banks in India, Basic Statistical Returns of Scheduled Commercial Banks in India, Directory of Commercial Bank Offices and Handbook on Quarterly Statistics of Scheduled Commercial Banks. It also contributes articles to the Reserve Bank monthly Bulletin on banking, corporate statistics, etc. Besides, various *ad hoc* reports and historical data are brought out by the Department in print/electronic form. The three Regional Offices maintain liaison with the Government and non-government organisations and banks.

9.38 The Rural Planning and Credit Cell (RPCC) was established in 1979 to ensure proper implementation of multi-agency approach to credit disbursement in rural areas. The Cell acted as Secretariat for the Steering Committee on Regional Rural Banks and Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD, 1979). The RPCC and ACD were merged with NABARD in 1982. Consequent upon transfer of functions of supervision and coordination of rural credit to NABARD, the Rural Planning and Credit Department (RPCD) was set up in the Reserve Bank in 1982. The RPCD is entrusted with the task of dealing with the Lead Bank Scheme, including formulation of District Credit Plans, priority sector advances, credit to weaker sections, rural development schemes, matters relating to state cooperative banks, central cooperative banks, the Regional Rural Banks, and coordination with NABARD, etc. The Urban Banks Cell, *hitherto* a part of ACD, was transferred to Department of Banking Operations and Development to function as Urban Banks Division. A full fledged Urban Banks Department was later set up in February 1984 to attend to the growing volumes of statutory and developmental work relating to urban cooperative banks.

9.39 The Industrial Finance Department was established in 1957 with the primary responsibilities of administering Credit Guarantee Scheme as an agent of the Central Government to address problems of SFCs and small scale industrial sector. With the establishment of DICGC in 1962 and IDBI in 1964, some of these functions were hived off and the Department was reconstituted as Industrial Credit Department (ICD) in 1981. The ICD was entrusted with the functions of provision of credit to industry, sick units, export finance, and also to administer the Credit Authorisation Scheme (CAS). It was expanded and converted into the Industrial and Export Credit Department (IECD) to carry out the functions relating to finance of small scale industries, monitoring of export financing and Districts Industries Centres. In pursuance of recommendations of an Expert Committee, the functions of IECD were merged with DBOD, DBS and MPD in July 2004.

9.40 The concept of centralised clearing operations took root in 1986 under the aegis of Uniform Regulations and Rules (URR) framed by the Reserve Bank. The URR regulations, common to all the clearing houses, have in-built flexibility to suit to the local practices.

IV. RECENT DEVELOPMENTS (1990 ONWARDS)

9.41 The Securities Department (a unit of the Banking Department at inception of the Bank) was entrusted with purchase and sale of government securities on behalf of the Government, certain approved institutions, viz., foreign banks and provident funds, etc. The Department also acted as custodian of the securities held by the Bank in its Issue and Banking Departments as well as those deposited by the insurance companies with the Government under the Insurance Act. The securities lodged as statutory deposits by the foreign banks operating in India and by other banks and financial institutions as cover for loans were also the responsibility of this Department. Over the years, however, the functions of this Department were taken over by Public Debt Office, Deposit Accounts Department and Public Accounts Department and by 1990, the Department ceased to function as a separate entity.

9.42 In the backdrop of the recommendations of the Committee on Financial Systems (Chairman: M. Narasimham, 1991), the supervisory role of the Bank was separated from traditional central banking functions with a view to put in place an integrated supervisory mechanism. Consequently, the Board for

Financial Supervision (BFS) was set up under the aegis of the Reserve Bank in terms of the Reserve Bank of India (BFS) Regulations, 1994. The BFS, chaired by the Governor, has four nominated non-official members from the Central Board of Directors. The Deputy Governors of the Bank are *ex-officio* members and one of them (holding the charge of regulation and supervision) is appointed as the Vice-Chairman. The Board is empowered to supervise and inspect the whole spectrum of the financial system, *viz.*, banks, non-banking finance companies (NBFCs), development finance institutions, urban cooperative banks, and primary dealers. The Department of Supervision (DoS), set up in 1993 was assigned the role to function as the executive arm of the BFS. The responsibility for regulation of various financial entities was assigned to different Departments. The Department of Banking Operations and Development to oversee regulatory functions of commercial banks and para banking institutions. These include, *inter alia*, formulation and implementation of banking policies; issue of directives; licensing of banks, branches and extension counters; legislations; procurement and scrutiny of statutory returns; complaints redressal and reconstruction of banks, *etc.* The Rural Planning and Credit Department continued to look after functions of the State and Central cooperative banks as well as the Regional Rural Banks and Urban Banks Department (UBD) that of the urban cooperative banks.

9.43 Extensive supervisory powers were assigned to Department of Supervision under the BR Act, 1949. Further, reinforcing the perception that inspection procedures of the Reserve Bank needed to keep pace with the expanse and the technological advancements taking place in commercial banking sector, the DoS was converted into Department of Banking Supervision (DBS) and the Department of Financial Companies (DFC) into Department of Non-Banking Supervision (DNBS) in July 1997 against the backdrop of necessity to regulate the activities of the non-banking finance companies resulting from the comprehensive changes in statutory provisions governing the NBFCs. The DFC, hereby, ceased to exist. The Financial Institutions Cell created in 1990 with a view to oversee the operations of financial and investment institutions was converted into Financial Institutions Division for ensuring coordinated and effective regulation and supervision. Subsequently, the supervisory role of the Division was merged with the DBS while the regulatory role was assigned to the DBOD. These organisational manoeuvres have

facilitated evolution of a well synchronised supervisory framework.

9.44 The criticality of human resources in execution of central banking functions gained prominence over the years in the Bank. Consequently, the erstwhile Department of Administration (DA) and Personnel Policy Department (PPD) were restructured in 1995 leading to creation of the Human Resources Development Department (HRDD) and the Department of Administration and Personnel Management (DAPM). The HRDD, with a professional base and multi-disciplinary manpower acts as the custodian of human resource policies and operations of the Reserve Bank, represents employee interests and ensures people sensitive solutions in the matters of personnel management. As a result of endeavours of the HRDD, the dormant issues of organisational regeneration, decentralisation of power, examination of manuals and statutes governing the Bank's operations for rationalisation, and perusal of rules and procedures concerning administrative, establishment and house-keeping matters, *etc.*, have been revived and assigned to various committees for examination. The growing concern for customer service resulted in putting in place a Complaints Redressal Cell (August, 1996) for addressing the complaints received from the general public with regard to deficiency in services rendered by various Departments of the Bank. Such cells were replicated subsequently at the Regional Offices. The Department brings out a quarterly in-house journal for connecting with the staff and promoting commitment.

9.45 Many developments have taken place in response to a renewed focus on the core central banking functions. The Credit Planning Cell, responsible for formulation of monetary policy and other policy initiatives was renamed as the Monetary Policy Department (MPD) on January 1, 1998 in order to respond to the changing environment. This was necessary in the context of growing integration of money, foreign exchange and other financial markets. The emphasis from hereon shifted to market analysis, policy evaluation and implementation techniques with the objectives of price stability, provision of adequate liquidity and financial stability. Subsequent to merger of some of the functions of the Industrial and Export Credit Department with other Departments in 2005, the responsibilities relating to sectoral deployment of credit including food credit fell into the ambit of MPD. With the creation of Financial Markets Department, however, certain activities of the MPD stand

transferred to the former (for details refer paragraph 9.51). In pursuance of effective communication and improving efficacy of transmission channels of monetary policy instruments, quarterly reviews of annual policy statement have been initiated in 2005-06 in place of bi-annual policy statements. The Technical Advisory Committee on monetary policy has also been constituted with a view to broad-base the policy formulation procedures.

9.46 The functions of the Secretary's Section were taken over by a full fledged Secretary's Department in 1970. The Department maintained dealings with the Press and the public while also performing functions relating to OMO, policy matters regarding the floatation of loans and other public debt matters. A Market Intelligence Cell was set up within the Department in 1992 with a view to tracking market developments and areas of concern to the Bank, now stands merged with the Regulatory Institutions Group, DBS. Consistent with the evolving structures, the Secretary's Department has come to play a key role by transforming the decision-making culture in the Bank. A significant step has been constitution of a Committee of the Deputy Governors to deal with all internal matters, with assistance from the Department. With an increasing interest in India at the international level, of late, there is a surge in foreign delegations representing both Government and multilateral financial institutions soliciting interface with the top-management at the Reserve Bank and the Secretary's Department plays a key role in arranging such meetings. Against the backdrop of efforts to strengthen and widen the Government securities market, the function of management of public debt was moved to the Internal Debt Management Cell (IDMC) created in 1992. The Cell now functions as a full fledged Department (paragraph 9.48 for more details).

9.47 The Press Relations Division (PRD) constituted in 1969 as a part of Economics Department was moved to the Secretary's Department in 1970 to handle the public and the press relations matters. Through the years, the PRD has become an effective communication channel of the Bank undertaking diverse responsibilities of educating the general public on central banking issues, management of the Bank's website, arranging press conferences for the top-management, publishing a fortnightly internal brochure, and a monthly Monetary and Credit Information Review (MCIR) for dissemination of information among banks and the public. The Division also regularly monitors all media reporting relating to

the Reserve Bank, banking and financial system in general and keeps the management informed about the relevant issues. The Division is mandated to evolve a transparent and interactive communication policy upholding the values of transparency, timeliness and credibility.

9.48 The Internal Debt Management Cell was created within the Secretary's Department in April 1992 by merging the Public Borrowing, Open Market Operations and Ways and Means Sections of the Secretary's Department. The Cell was constituted as an independent inter-disciplinary unit with a view to evolve policies relating to internal debt management as a part of the overall monetary policy, while retaining the earlier functions and to 'promote an active and efficient Government securities market'. The increasing responsibilities of the Bank in execution of open market operations as an active instrument of monetary policy resulted in expansion of the IDMC into a full fledged Department that was renamed as Internal Debt Management Department (IDMD) on May 7, 2003 in order to 'reflect the status and criticality of its activities'.

9.49 The changing global environment and practices necessitated the Reserve Bank to take notice of technology advances in order to keep pace with the evolving international standards. Resultantly, the Department of Information Technology was set up in January 1995 to undertake formulation and implementation of policies relating to information technology and provide centralised technological support to other Departments. The Department also acts as nucleus for interaction with the Government and the Institute of Development and Research in Banking Technology (IDRBT), Hyderabad, established and wholly funded by the Reserve Bank in 1996. The Management Services Department (MSD) that was functioning since 1979 with varied tasks of undertaking organisational analysis, systems research and development, work-procedure studies and codification, manpower planning, etc., ceased to exist with the emergence of the DIT and HRDD on the scene, as its functions were merged with these two Departments.

9.50 In a liberalised framework, there has been a paradigm shift in the external sector management policy. The dominant strands of the new policy encompassed achievement of full convertibility on current account; gradual movements in convertibility on the capital account; and the FERA (1947 and 1973) which exercised stringent controls on external

transactions repealed and replaced by FEMA (June, 2000). Reflecting the change of intent and policy, the Exchange Control Department (1939) was significantly downsized with effect from 1991 and renamed as Foreign Exchange Department on January 31, 2004.

9.51 The year 2005 was significant in view of the developments relating to the functioning of the financial sector. During the year, two Departments were established that would have a significant bearing on the operations of the Reserve Bank in the years to come. The Financial Markets Department (FMD) commenced operations in July 2005 in terms of re-orientation of the Government debt management functions and simultaneously strengthening of monetary operations within the Reserve Bank while moving towards functional separation of debt management and monetary operations. The Department took over the functions relating to money market operations, liquidity forecasting operations of the MPD, domestic operations in respect of the Government securities and the foreign exchange markets. Further, the monitoring of Market Stabilisation Scheme (MSS), market surveillance functions and coordination of policies relating to tracking the financial markets, in so far as they impact the monetary policy and financial stability would also form the responsibilities of this Department.

9.52 With a view to strengthen the institutional framework for regulation and supervision of payment and settlement systems that form the basis of the financial system, the Reserve Bank constituted a Board for Payment and Settlement Systems (BPSS) as a Committee of the Central Board which commenced operations in February 2005. The Board prescribes policies relating to payment and settlement systems and determines the criteria for membership to these systems relating to continuation, termination and rejection of the same. In consonance with the above, and to extend logistical support, a new Department of Payment and Settlement Systems (DPSS) was established which started operations from March 7, 2005 by carving out certain functions of the DIT. The DPSS will carry out the functions of policy formulation; regulation, supervision and overseeing the operations of the systems; implementation of core principles and standards; acting as the secretariat to the BPSS; performing activities related to National Payments Council and the Payment Advisory System Committee; designing, developing and integrating systemically important payment system projects and finally serving as the

nodal point for interface with the Government on these issues. Supervision of the participants of the systems, however, would continue with the respective supervisory Departments, viz., commercial banks by the DBS, cooperative credit sector by NABARD, urban cooperative banks by the UBD, and Clearing Corporation of India Limited and primary dealers by the IDMD.

9.53 In the area of currency management, the DCM has made significant strides. Mechanisation of verification, processing, sorting and disposal of soiled notes through environment friendly briquetting process have been the thrust areas in recent years. In this context, it is relevant to mention that 'Bharatiya Reserve Bank Note Mudran Ltd.' was established (registered under the Companies Act, 1956) in 1995 to manage the two new note printing presses at Mysore (Karnataka) and Salboni (West Bengal), wholly owned by the Reserve Bank. The company has already undertaken the initiatives to fund modernisation and expansion plans of the existing note printing presses at Nasik and Dewas. Another significant milestone for the Bank has been the establishment of a Monetary Museum, the first of its kind in India, opened for public on January 1, 2005 which displays the artefacts and exhibits of money ranging from Neolithic ages to the store value cards of the modern times and is a public delight in offering information on concepts relating to money including the evolution of e-money and money games on the kiosk.

9.54 Further, the Bank has put in place a network of twenty two Regional Offices functioning in various states of the country which serve and cater to the requirements of the regions in which they are positioned as also the adjoining areas. These offices perform a wide range of location specific functions.

V. MANPOWER MANAGEMENT

9.55 In the spheres of recruitment and promotion, the Bank has learnt from experience and evolved policies to meet its growing needs (RBI, 1970). In the initial years of operations, senior positions were manned by the staff drawn from the Imperial Bank of India and the Government. It endeavoured to utilise staff of the office of Controller of Currency of the Government on a permanent basis and those of the Imperial Bank on a temporary basis. The temporary staff were, however, gradually absorbed. The records confirm that the Governor recommended recruitments of officers with special qualifications

Box IX.1**Governance Structure in the Reserve Bank of India- Present Arrangements**

The powers and responsibilities of the Reserve Bank of India flow from the RBI Act, 1934. The general superintendence and direction of the Bank's affairs is vested in the Central Board of Directors, comprising the Governor and not more than four Deputy Governors appointed by the Central Government under Section 8(1)(a) of the Act, four Directors nominated by the Central Government, one each for Local Boards under Section 8(1)(b), ten Directors nominated by the Central Government under Section 8(1)(c), and one Government Official nominated by the Central Government under Section 8(1)(d). The Governor and Deputy Governors hold office for periods not exceeding five years (fixed by the Central Government) and are eligible for reappointment. In absence of the Governor, a Deputy Governor nominated by him functions as the Chairman of the Central Board.

Meetings of the Central Board are required to be held not less than six times a year and at least once in every quarter. Generally, the Board meeting in March every year is conducted in New Delhi to enable the Board to discuss the Union Budget with the Finance Minister after its presentation to the Parliament. The August meeting of the Board is usually held in Mumbai to facilitate passing of Reserve Bank's Annual Report and accounts. For practical convenience, the Board has delegated some of its functions by means of statutory regulations under Section 58(2) (i) of the Act to the Committee of Central Board comprising the Governor, Deputy Governors and such other Directors as may be present at the relevant time in the area in which the meeting is held. The Committee generally meets once a week to attend to the normal business of the Bank. Apart from the Committee of the Central Board, two other Committees *viz.*, the Board for Financial Supervision and the Board for Payment and Settlement Systems assist the Board in supervising the areas assigned to them. There are three Sub-Committees: (i) Inspection and Audit Sub-Committee (ii) Staff Sub-

Committee and (iii) Building Sub-Committee to assist the Committee of Central Board in the respective matters.

The Bank usually follows the consensual approach to get the benefit of all shades of opinions in decision making. Senior Management Meeting, attended by the Governor, Deputy Governors, Executive Directors, select Chief General Managers and Regional Directors on a rotation basis deliberates upon and takes decisions on important matters (the periodicity of Senior Management Meeting is flexible). The Committee of Deputy Governors meets weekly and attends to the matters referred to it. The inspection reports of Offices, branches and Central Office Departments of the Bank are discussed in a Committee of Executive Directors for appropriate follow-up. Financial powers under the Expenditure Rules, 2005 are exercised by the Committee of Executive Directors. Committees of select Chief General Managers are also in place to address the specific technical issues. The major policy decisions are taken at the level of Central Board, Committee of the Board, the Governor, or the Deputy Governors. In other matters, decisions are taken at the levels of Executive Directors or Chief General Managers-in-Charge of the Central Office Departments. Annual Regional Directors' Conference is another forum where important issues are deliberated and decisions are taken.

In the day-to-day administration and functioning of the Departments of the Bank, decisions are taken at the level of Heads of Departments (Chief General Manager-in-Charge/Chief General Managers/General Managers) to junior most level of officers, *i.e.*, Assistant Managers depending upon the nature of the matter or activity. In some areas of work such as passing of bills and payments, *etc.*, the powers to be exercised are clearly defined in the relevant circulars, manuals, Book of Instructions, *etc.* With a view to minimize the delays and tiers of decision making, level jumping is in vogue wherever feasible.

either on contractual basis or by borrowing from different services, fixing the terms of appointment based on qualifications. It was also considered necessary to 'provide for a reasonable proportion of European officers'. Except for these categories, the existing grade / cadres were given priority in promotions. Comprehension abilities for procedural details and diligence at this point were considered to be of greater consequence than the academic brilliance. Subsequently, the recruitment procedures were simplified and reclassified from time to time. There were concerted efforts to recruit personnel of high caliber and well-calibrated strategies were adopted to retain the talent pool.

9.56 The Governor, time and again used his discretion in adopting recruitment methods that suited the then prevalent economic and political conditions. As the activities of the Bank diversified, especially in the fields of agricultural credit, the existing personnel proved qualitatively inadequate, so new cadres were introduced to meet the specialised needs. Alongside, the Governor also perceived the need for annual recruitment of probationers and further, a few persons with sound educational background were recruited as probationary assistants for complying with the upcoming needs in view of expanding operations of the Bank. Accordingly, following the directives from

the Governor, it was decided that an adequate reserve be created amongst the younger personnel and systematic training arrangements be put in place to equip the staff in anticipation of the future capability requirements. Intensive training and selection for senior grades was also undertaken in the years 1942 to 1949 for skill building. In the meantime, the Reserve Bank of India Staff (Assistants) Rules, 1944 were framed and were later incorporated into the Staff Regulations for selection of officers from assistants. Selections were made by the Governor on advice of Deputy Governors, subject to confirmation by the Committee of Central Board. During the Second World War, advance increments were granted to qualified personnel with impressive academic records in order to cope with the shortage of such personnel to shoulder mounting work pressures. The policy was extended to cover larger staff numbers in 1946 and 1948.

9.57 The ACD was an important arm of the Bank's policies to give a boost to rural credit. The thrust on rural credit was reflected in the recruitment policy as well. The Bank resorted to separate recruitment of rural credit officers from the agricultural colleges and some were taken on deputation. At another level, Industrial Finance Department was set up in the Bank to monitor the long-term credit needs of a planned economy. This called for a major expansion in the Bank's personnel to meet the goals and challenges of development.

9.58 Systematic and centralised recruitment procedures were adopted with the constitution of Central Recruitment Board in 1947. A comprehensive revision of pay scales was undertaken and new grouping introduced in 1948 classified the staff under the categories of class I (officers' cadre), class II comprising assistants, superintendents, deputy and assistant treasurers, *etc.*, class III constituting clerical and cash department staff and class IV – the subordinate staff. A noteworthy feature of the enrollment policy was representation to minorities. At the time of partition, the focus shifted in favour of meeting the special needs of economically and socially backward classes. Efforts were also made to bring within the ambit persons with physical disabilities, ex-servicemen, refugees, freedom fighters and retrenched Imperial Bank employees.

9.59 The management of increasing specialised work of research was entrusted to a competent economist and for the purpose a post of Director of Research was created in 1941. Setting up of a full fledged Department of Research and Statistics in 1945 necessitated engagement of specialised officers

that built up a team of some of the eminent economists and statisticians in the country. The Officer-in-Charge of the Department maintained constant liaison with the Provincial Governments. Dr. B.K. Madan, the then serving Economic Advisor to the Government of Punjab was the first incumbent for the post of Director in mid-1941. After holding higher positions of Economic Advisor and Executive Director, Dr. Madan became a Deputy Governor of the Bank in 1964. In 1943, services of Sh. J.V. Joshi, the Deputy Economic Advisor to the Government of India were obtained on loan basis as Senior Economist for the purpose of advising the Bank on economic matters including currency and central banking, besides reviewing and suggesting improvements to the existing machinery for collection and coordination of economic intelligence. Sh. Joshi retired as Executive Director in January 1955 after serving the Bank for over a decade (RBI, 1970).

9.60 The economic situation in the post-war period called for a more diverse set of capabilities, geared towards analysis and an investigative approach for inspecting the banks as well as for formulating public policy. Perhaps, the most effective supervisory power conferred on the Reserve Bank was the right to inspect banking companies at any time. The formidable task of putting in place efficient machinery for conducting inspection of banks necessitated devising sound strategies and resulted in creation of the Department of Banking Operations in 1945. The staff of the Department of Banking Operations was augmented from time to time. Arrangements were also made to recruit staff from outside, especially persons with practical experience in banking.

9.61 With the nationalisation of the Reserve Bank of India on January 1, 1949, the RBI Act was suitably amended to effect ownership transfer followed by constitutional amendments of Bank's Central and Local Boards. There was reconstitution of Central and Local Boards (four) of the Bank. The Governor was informally consulted by the Government for constitution of new Boards and the changes were limited to the minimum.

9.62 To address the challenging tasks faced by the Bank post independence, a careful process of selection for enrollment of specialised personnel was put in place. Qualified and experienced officers from some of the bigger and well-established commercial banks were recruited and trained. Calling for specialised skills involved issues of building capacity not only within the Bank but also in the banking sector as a whole. In pursuance of this, the Ramnath

Committee recommended setting up of the Bankers Training College (BTC) for enhancing skills of senior bankers in the banking industry. Accordingly, the College was set up in Bombay in 1954 with assistance from the Colombo Plan to train the personnel of commercial and cooperative banks. The Reserve Bank Staff College (RBSC), Madras was established in August 1963 to address the training needs of the middle and junior executive grades of the Reserve Bank. The College of Agricultural Banking (CAB) was established by the Bank in Pune in 1969 with the aim of providing cooperative banks and later also commercial banks with trained personnel to handle the business of financing of agriculture effectively. Both BTC and CAB also conducted special programmes for the officers of the Reserve Bank apart from admitting them in courses organised primarily for commercial and cooperative bank personnel. The National Institute of Bank Management (NIBM), Pune was established in 1969 to be the fulcrum of training and research in the banking system. The four Zonal Training Centres of the Reserve Bank at Mumbai, Kolkata, New Delhi and Chennai were established during the course of years to render educational services primarily to non-executive employees of the Bank. To foster research in the field of national and global issues of economic growth, the Bank established Indira Gandhi Institute of Development Research (IGIDR) in Mumbai in December 1987 which became a deemed University in 1995.

9.63 The Bank has been an equal opportunity employer and to put in place a system of fair and equitable selection process, the Reserve Bank Services Board was set up in 1968. The Board is an autonomous body for recruitment of officers at all-India level and has an arm's length relationship with the Reserve Bank in selection policies and procedures. Over time, the Services Board has evolved to assist the Bank in the internal selection and promotion exercises as well. With the expansion of Department of Research and Statistics, the Services Board initiated selection procedure for recruitment of specialised officers through all India competitive examinations and interviews. Similar procedures were also adopted for inducting competent personnel in the operational Departments.

9.64 Presently, the HRDD in the Bank is actively striving towards creating a facilitating environment

to enhance the efficiency of the Bank and to catalyse conditions for a more wholesome quality of life at the workplace as well as on personal front. Towards this end, the Department has put in place, within the short span of its coming into the present shape, human resource initiatives in the areas of (a) Performance Appraisal and Management System, (b) Promotion Policy, (c) Pay and perquisites of its employees, (d) Transfer and Placement Policy, (e) Capacity Building, (f) Human Resources Information Management System, (g) Scheme for Deputation/ Secondment, (h) Staff Suggestion Scheme, (i) Counselling, (j) Organisational Climate Survey, and (k) Summer Placement for students from reputed institutes, etc. An important step towards downsizing the organisational expanse was introduction of 'Optional Early Retirement Scheme' (OERS) in August 2003. The scheme which was open for all categories of employees³, was offered to the employees with the Bank retaining the prerogative of acceptance or non-acceptance of the options.

9.65 These initiatives have not only resulted in cutting down of the complex processes and procedures but have also facilitated reducing the transaction costs. Further, the policies of the Department have also enabled to revitalise the organisational culture and the work environment. This in turn, has resulted in a shift from the micro-level monitoring of processes and practices to an increasingly self-regulatory schemes with improved capacities to set effective, compliant and understandable procedures.

VI. STRATEGIC PLANNING

9.66 The Reserve Bank has evolved in terms of its structures and functions in response to the role assigned to it with the growth of the economy from the colonial to the independent era. Further, over the years, its responsibilities have been continuously redefined alongwith changes in the emerging economic, social and political environment even without conscious strategic planning. In recent years, however, the issue of strategic planning has increasingly engaged the attention of central bankers. The Bank for International Settlements (BIS) has played a key role in assisting the central banks to devise strategies with a view to provide insights into the issue and facilitate adoption of suitable strategic planning models.

³ Employees who had completed 25 years of full time regular service and 50 years of age as on August 1, 2003 were eligible. The scheme was closed on December 31, 2003. A total number of 4,468 employees across the officer and the non-executive classes opted for the scheme.

9.67 Central banks have to constantly reinvent themselves to take on new roles and functions and stand ready to manage crisis situations. The financial markets supervised by central banks move too fast for them to stay still. Further, the administrative machinery of central banks comprising the Governors, Boards and managers have to constantly deliver on their ongoing policy objectives. This requires continuous updating of the management skills to prosper in a challenging environment.

9.68 In this scenario, clarity of legal mandate; sound internal procedures; establishment of explicit authority; and amalgamation of central bank objectives and action plans with its responsibilities assume special significance. The Governors and Boards of central banks need a definite vision and also the ability to create a strong and dynamic institutional framework for imparting a practical perspective to the same. The mandatory implements of strategic planning embellish the organisational structures, cultures, reporting relationships, career paths and the work content to suit to the economic backdrop.

9.69 Central banks, created and empowered by statutes, earlier did not consider the necessity of adopting strategies for survival or success. Transformation in the global economic environment and evolving complexities in financial systems has, however, forced central banks to take notice of strategic planning as a major management tool. Further, strategic planning is significant from the viewpoint of central banks in emerging economies as they cope with the changing expectations that they are subject to. Table 9.1 presents select characteristics of the Strategic Planning processes followed by some of the countries (BIS, 2004).

9.70 Communication with a clear sense of purpose and direction in the light of array of audiences that the central banks address is an important element of strategic planning. Central banks are judged by the public face that they present and have become increasingly transparent in recent times. A significant development in this regard has been the increasing efforts undertaken by central banks to communicate their views about the economic outlook and its implications for monetary policy operations. The most important channels of monetary policy communication are central banks' economic commentaries accompanying their interest rate moves, parliamentary hearings and monetary policy reports. The events that do not occur often, such as unscheduled rate moves are expected to have a significant effect on markets precisely because they

are rare. However, more frequent channels of communication allow central banks to convey information gradually, as they learn about changes in current and expected future conditions for monetary policy (Connolly and Kohler, 2004).

9.71 The strategic plan of a central bank ensures amalgamation of its goals, objectives and action plans with its primary tasks and responsibilities. As is the case in the corporate sector, central banks have a mission: to achieve the long-term objective of macroeconomic development through maintaining price stability and thereby ensuring financial stability. Strategic planning, in this context, enables central banks to pool in the available resources and utilise them effectively to achieve the desired objectives. The successful implementation of the strategic plan, however, depends on a host of factors such as the legal framework governing the central bank, the degree of its independence, accountability and transparency.

9.72 In the aftermath of the South East Asian crisis of 1997, many emerging market economies amended laws governing their central banks. Such amendments have ensured greater independence in the conduct of monetary policy. The statutory independence increases the accountability of central banks to convince the stakeholders that they are performing their role dutifully and effectively. This, however, calls for broad-based realisation within the central bank that departmental goals must serve strategic objectives. Senior management support is, of course, integral to the entire process. The driving forces in implementing changes in programs in central banks include political demands for transparency, openness and delivery of tangible and measurable results. The institutional changes, which are generally stressful, lead to restructuring of some key central banking functions and call for a higher degree of adaptability and flexibility on the part of the senior managements. Many of the central banks, in recent years have shown the capacity to manage such upheavals with amazing success.

Strategic Planning in the Reserve Bank of India

9.73 The Reserve Bank of India Act, 1934 confirms commitment to excellence, transparency and accountability in operations. The provisions of the Act stand for a sound regulatory framework and effective functioning of the market mechanism. The functional responsibilities of the Bank can be broadly categorised into monetary policy, financial sector development, maintenance of financial stability,

Table 9.1: Selected Characteristics of Strategic Planning Processes

Central bank/ monetary authority of	Approximate frequency of planning process ⁴	Length of planning process	Primary time horizon ⁵	Strategic planning process starts with substantive input from
Austria:				
<i>Major strategy process</i>	Every 3 years	1 year	4 years	Executive Board
<i>Minor strategy process</i>	Annual	3 months	1 year	Planning and controlling division
Brazil			Vision: 5 years Macro-objectives: 2 years	
Canada	Every 3rd year		3 years	Environment scan, Board of Directors
Chile	Annual		2 years	Board
Finland	Annual	1 year	4 years	Executive Board
Hong Kong SAR	Annual	2-3 months	3 years	Departments
Japan	Annual	5-6 months	1 year	Special committee at Executive level
New Zealand	Annual	3 months	Macro trends/environment issues: 5-10 years Strategic objectives: 5 years Priority objectives: 1 year	Pre-planning seminar led by external experts
Poland	Annual	3-4 months	3 years	Management Board
Singapore	Annual	4 months	1 year	Environment scan and review
Sweden	Annual	A few months	1 year	Executive board
Thailand	Annual	5 months	1 year	Top management committee
United Kingdom	Annual		1 year ⁶	Away-day for Executive Team and senior management
United States (Board of Governors)	Every 2nd year		4 years	Board members and senior officers
<i>Addendum : BIS</i>	<i>Annual</i>	<i>4 months</i>	<i>Macro trends/strategic objectives: 3-5 years Primary objectives: 1 year</i>	<i>Executive Committee</i>

⁴ This should be used as rough indication. Some institutions have not settled on a fixed periodicity, while at others the magnitude of the strategic planning effort varies from year to year.

⁵ Typically, this refers to the time period specified in the name of the plan. Annual plans usually include medium-term considerations.

⁶ The current strategic planning process is under review at the Bank of England, and there is a desire to move away from the one-year-ahead focus and develop the Bank's medium-term strategy (3-5 years).

Source: BIS Presentation at SEACEN EXCO Seminar, Colombo, Sri Lanka (January, 2004).

regulation and supervision, currency issue and its role as banker to government and to banks. Till the mid-1980s, the Reserve Bank had not embarked upon strategic planning. The Bank could, however, undertake the organisational restructuring through the years without any systematic planning process in place and with flexibility that perhaps has no parallels.

9.74 Whereas some efforts were made by the Reserve Bank to realign its organisational structure in 1982, a comprehensive strategic planning exercise was undertaken by engaging a private consultancy agency in 1992. The objective was to set out a roadmap to redefine its role and to review internal organisational and managerial efficacy. Externally, such a course was to address issues emerging out of

changing expectations from a central bank in the context of a liberalised external environment and to reposition the Bank firmly in the global context. The overarching strategic plan designed by the agency was supported by departmental position papers and documents on specific subjects, viz., technology, human resources, environmental trends, etc. The final plan consisted of four sections, viz., statement of mission, objectives and the policy of the organisation; review of organisational strengths and weaknesses; strategic actions concomitant to the central banking functions; and the implementation strategy.

9.75 Implementation of the recommendations of the report of the consultancy agency (Appendix 9.2) resulted in a far-reaching transformation of the organisational structure of the Bank. The rearrangements included creation of the Department of Information Technology and the Human Resources Development Department by winding up of the Management Services Department and reconstitution of the Secretary's Department to carve out an Internal Debt Management Cell which was later converted into the full fledged Internal Debt Management Department.

9.76 Further, many qualitative measures have been introduced by the management from time to time in order to improve overall efficiency. Various initiatives have been taken such as introduction of clean note policy; designing of Central Data Base Management System (CDBMS); evolving Integrated Establishment System (IES) towards business process reengineering; constitution of Financial Markets Committee (meeting daily); Regulatory Interactive Group (meeting fortnightly); and recently, adherence to the Right to Information Act (October, 2005) in furtherance of commitment to transparency. Major qualitative and quantitative performance indicators during the post-reform period are presented in Appendix 9.3 and Appendix 9.4, respectively.

9.77 To re-strategise its action plan taking off from the consultancy exercise, a new Strategic Action Plan (SAP) has been put forth which seeks to provide strategic direction and coherent framework to guide the Bank's operations and support activities over next three to five years. The plan is presently under active consideration of the Bank. The 'Consultative Paper (2005)⁷ offers a medium-term perspective of the SAP complemented by annual reviews, enabling necessary readjustments. The SAP aims at effective policy interventions and defines central bank responses in

the changing economic environment in order to consolidate India's new found recognition.

Mission and Vision

9.78 The Mission statement, drawing from the mandate of the Bank as per the Reserve Bank of India Act, 1934, states 'To foster price stability coupled with productivity-led economic growth consistent with employment objectives while ensuring the integrity, efficiency and stability of the financial and payment systems'. The values underlining the mission statement include public interest (reflecting accountability and responsiveness to the Indian Parliament, the Government of India and the public in general); integrity (endorsing professional ethics and standards in operations and dealings); excellence (transparency and accountability in operations besides fostering motivation, expertise and professionalism); independence of views (valuing independent professional judgement and encouraging consultative policy formulation); and finally responsiveness and dynamism (adapting to changing demands and also catalysing change). The Vision statement seeking to reach the destination states- 'The Bank aims to be a leading central bank with credible, transparent, proactive and contemporaneous policies and seeks to be a catalyst for the emergence of a globally competitive financial system that helps deliver a high quality of life to the people in the country.'

9.79 The Mission statement and the organisational values are long-term principles, whereas the Vision for future, strategic objectives and the guidelines are subject to regular reviews in response to internal and external transformation affecting the Bank. Such rearrangements make it mandatory to adopt forward-looking attitudinal changes and reinforce capability build-up to keep pace with global progressions. The issues of structured decision making which were so far dormant would come to occupy the centre-stage with the adoption of strategic planning.

Approach

9.80 The SAP envisaged for the Reserve Bank is a mix of top down and bottom up approach to optimise the advantages of both. In the backdrop of organisational objectives, the plan reiterates anticipation of evolving external environment in the medium-term; revisiting strengths and weaknesses

⁷ 'Strategic Action Plan- A Consultative Paper', Reserve Bank of India, Human Resources Development Department, 2005.

(evaluation of capabilities); and doing away with the outdated mandates for enhancing efficiency in operations in furtherance of best public interests. The results of these efforts are likely to manifest in attaining a visible focus, reinforced proficiency, realisation of shared sense of purpose, optimising resource use and build-up of momentum to achieve goals.

Strategic Objectives

9.81 The SAP recognises the Reserve Bank as a multitasking entity and requires competencies in terms of appropriate infrastructure and human resources. The vast and intricate organisational structure comprising the Central Office and Regional Offices of the Bank offer support to this effect. This is complemented by access to an exhaustive data base on the Indian economy (disseminated through the publications and the website); professional training establishments; competent manpower; and availability of adequate financial resources.

9.82 The strategic objectives of the Reserve Bank comprise, *inter alia*, monetary stability, financial stability, efficacy of Payment and Settlement Systems, credible currency management, effective public debt management and advisory role to the Government of India on economic policies. The cardinal objectives, besides the aforementioned include catalysing conditions to ensure equitable and balanced growth; manage investment assets of the banks; serve public interest; protect depositors interest; and ensure more coordinated regime among various regulators such as Insurance Regulatory and Development Authority and Securities and Exchange Board of India to prevent regulatory arbitrage.

Strategic Planning Framework and its Implementation

9.83 The efforts to reposition the Bank in the changing global environment require focus on core areas, addressing prioritisation of actions, strengthening of internal capabilities and competency gaps in operations through recruitment, lateral entry, intensive training and reformed placement policies. The areas of strength of the Bank are set against inherent weaknesses in the form of structural rigidities, slow decision-making, lack of accountability, absence of market-linked remunerations, inadequate internal communication mechanism, negligence of human resources, sub-optimal placements, less than

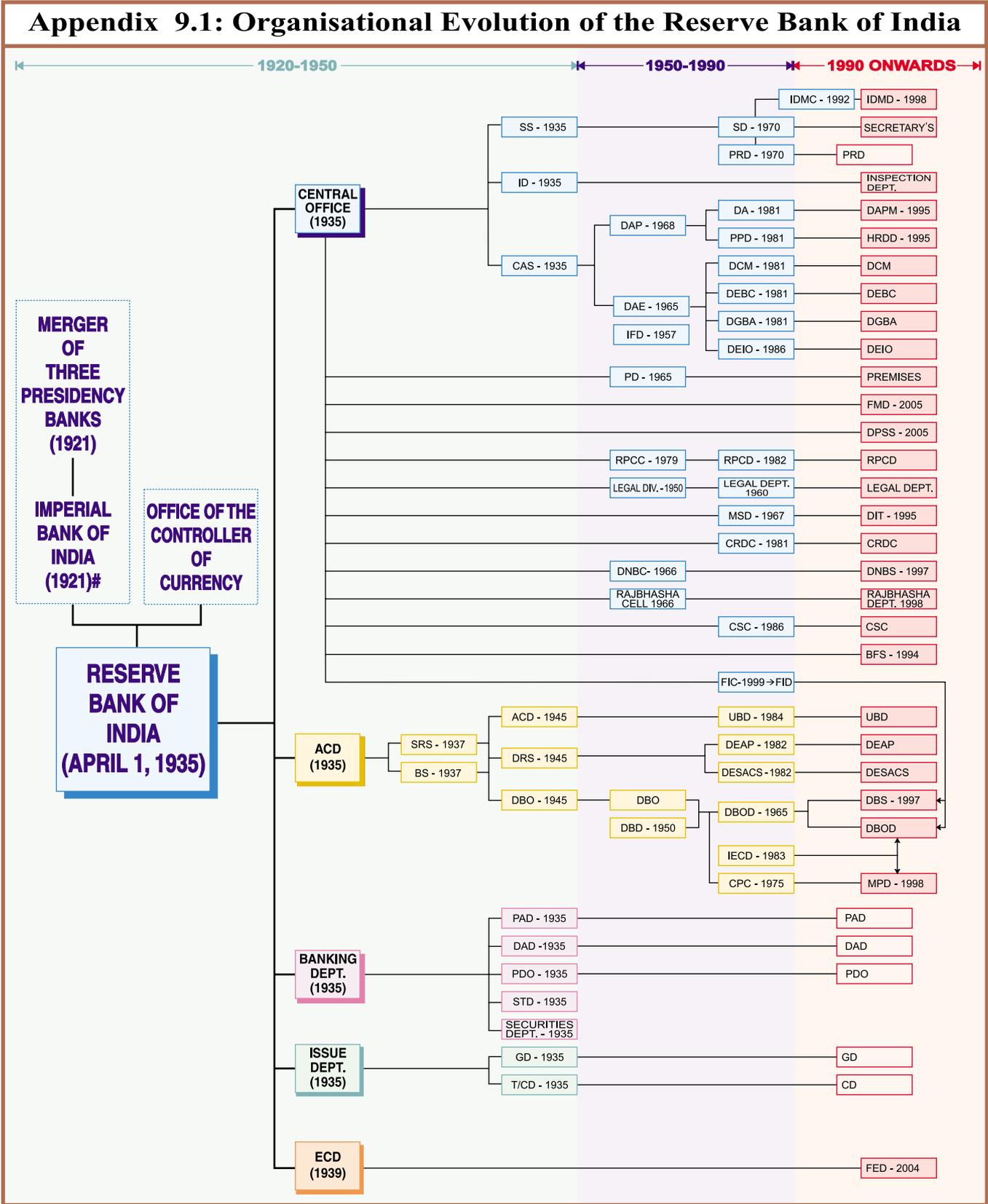
adequate technology absorption, lack of specialisation, inadequate knowledge management and relatively low motivational levels.

9.84 To be able to address these concerns in a pragmatic manner, there is a need to resolve conflicts of interests and focus on core central banking functions while abiding by the core principles. Further, it is imperative to introduce efficiency criteria in the operations, de-emphasise hierarchies, transform work processes and encourage corporate communication. Leveraging training infrastructure and propagation of corporate culture are also crucial.

9.85 The strategic planning framework of the Reserve Bank affirms an interface between the external environment and internal strategies, dovetailed with optimal utilisation of existing capabilities. As a prerequisite, it is envisaged that a dedicated Strategic Planning Section be created. The Central Board of Directors would remain the main forum for drawing 'external expertise'. Other experts in the relevant areas could be consulted as and when necessary. The quarterly reviews of annual monetary policy statement would continue to provide necessary inputs on the economic environment of the country, the global touch down, emerging market situations and government policies for the purpose of realignment of SAP through the course of time.

VII. CONCLUSIONS

9.86 In terms of organisational structures and evolution of central banks, there are no standard international models. Central bank structures have evolved as responses to the ever changing contemporary economic, political and financial conditions in most countries. The Reserve Bank has been able to evolve successfully through the eventful years of its existence. The adoption of Strategic Action Plan that is under consideration for implementation, however, raises the risk and question of being rigid in the face of a changing external environment. The historic flexibility inbuilt in the functional approach *hitherto* adopted by the Reserve Bank that withstood the challenges of times should not be sacrificed in the process. The dilemma, therefore, is either to be bound by a set model of planning or to adapt to the changes as they come in the backdrop of rapid economic transformation that calls for far quicker responses than ever before.



CARRIED OUT SOME FUNCTIONS OF CENTRAL BANK AND IN 1955 IT WAS CONVERTED INTO STATE BANK OF INDIA.

PLEASE SEE LIST OF ABBREVIATIONS FOR FULL NAMES OF THE DEPARTMENTS.

Appendix 9.2

Summary of Draft of the Report on the Strategic Action Plan for the Reserve Bank of India (1993-2002)

I. Introduction

A consultancy Agency (1992) was entrusted with the task of drafting a strategic plan for the Reserve Bank covering the period 1993-2002 to redefine the role of the Bank and review the organisational and management effectiveness. The action plans were sequenced into three phases: 1993-1995; 1995-1998; and 1998-2002.

II. Mission

The Mission statement, consistent with the RBI Act proclaimed that 'RBI seeks to develop a sound and efficient financial system with monetary stability conducive to balanced and sustained growth of the Indian economy'. The mission philosophy emphasised: excellence with transparency and accountability in operations, dynamism, professionalism, ethical standards, fostering high levels of motivation, skills and efficiency, sound regulatory framework conducive to an efficient market mechanism, adoption of modern technology in operational and decision-making processes, openness, trust and respect in all relations.

III. Objectives

Monetary Policy Objectives

Containing inflation and promoting economic growth; advising the Government on deficit financing and public debt management; balance of payments and management of foreign exchange reserves; and development of the financial sector; promotion of non-currency form of payments while improving the quality, design and availability of currency.

Financial Sector Developments

Effective prudential supervision of systems and information access, market intelligence and contingency planning to avoid systemic risks and assist banking and financial entities to become globally competitive.

Organisational Development

To evolve a policy on Bank's stake-holding in subsidiaries and their management; development of strategic information system for taking a proactive stance in decision-making; high quality and timely economic research to support the decision-making;

efficient and professional management of Bank's internal financial resources; public relations based on its values and strategic role to establish a distinct identity; to ensure that excellence is recognised, merit is rewarded and exploring the full potential of every employee for mutual advantage.

IV. Review of Organisational Strengths and Weaknesses

Strengths

A large body of competent officers and staff; access to key data on the economy; wide organisational network with 22 Regional Offices; established infrastructure; ability to attract talent; and financial self sufficiency.

Weaknesses

Structural rigidity, lack of accountability and slow decision-making; eroded specialist know-how; strong employee unions with rigid industrial relations stance; surplus staff; weak market intelligence.

V. Strategic Actions

Strategic actions derived from mission and objectives are aimed at successful management of the changing environment based on certain assumptions.

Assumptions

Government's policies on liberalisation and privatisation would continue; fiscal deficit would be contained and progressively reduced as a percentage of GDP; full convertibility of rupee on current account and move towards capital account in the long run; financial sector reforms would continue; disintermediation and diversification of financial system and products with the entering of new Indian private sector participants as well as MNCs; monetary policy would be conducted through indirect instruments; and interest rates would be deregulated.

Strategic Actions – Phases

Strategic actions are sequenced to be implemented in three phases under the heads: "Monetary Policy and Financial Sector", identified as the thrust area; "Legal Framework" for appropriate legal support; "Customer Service" for positive relationships in a new era; and "Organisational Support" dealing with the

overall organisational aspects such as structure, systems, human resource development and the use of modern technology.

Monetary Policy – Phase-I

The complete responsibility of monetary policy formulation rests with the Department of Monetary Policy with support from the DEAP; the IDMC (now IDMD) is entrusted with the responsibility for open market operations in Government securities as well as development of primary and secondary markets; developing new instruments and enlarging the scope of participation in the Government securities market and to reduce SLR while maintaining overall liquidity in the system; to increase the spread between deposit and lending rates alongside reducing the difference in average rates of deposits and advances to promote competition and efficiency; mechanism for making all eligible assets available for open market operations; to take up long-term monetary policy formulation and liquidity forecasting and make public policy pronouncements on target inflation rates; coining lower denomination currency notes and introduce higher denomination notes and to promote non-cash banking like EFT; and establish currency transit areas to increase the spread of currency distribution and allow competent banks to operate the currency chests.

Supporting Systems

Enlarged communication net-work and integrated online banking system. Set up a Division in the DEAP exclusively for analytical support for monetary policy formulation. Using Banknet or Nicnet for forex data for efficient estimation and analysis.

Monetary Policy – Phase-II

De-administer interest rates on lending and deposits and full convertibility on current account; accountability to the Parliament on responsibility for monetary policy; to take up with the Government the issue of liability management on forex flows on behalf of the Government.

Financial Sector – Phase-I

To set up a supervisory board for single entity supervision and inspection of the financial system; to organise DBOD, FIC,DFC,IECD and UBD⁸ under a single Department of Supervision towards the

objective of integrated policy making for the entire financial system under a separate Department of Financial System Regulation (DFSR).

Policies on Regulation and Supervision

Steps towards formulation of entry norms, capital adequacy, licensing, interest rates, liquidity, etc. Punitive actions for non-compliance with the prudential guidelines. To define the nature of appropriate supervision (on-site or off-site). Better coordination with the other regulatory authorities like SEBI on areas of overlap. To formulate guidelines for mergers and amalgamations for banks and financial companies. Discontinuing the practice of nominating the Reserve Bank officers on the Boards of SFCs, RRBs, FIs, etc. Withdraw controls on the commercial or managerial aspects of the banking business. Promotion of new financial products and services. Engaging outside agencies in auditing, uniform inspection methods for different entities of the banking sector, a new inspection methodology on special areas rather than total operations with a defined periodicity. Review the case for charging inspection fee.

Market Intelligence

Establish Research and Intelligence Wings in all Regional Offices and all operational Departments of the Central Office.

Supporting Legal Framework

The Bank should prepare a strong case for changes in its purview and put up before the Government for action.

Customer Service – Phase-I

Set up a Department of Corporate Communications by merging functions of Press Relations and Publications (DEAP); and Department of Payment and Systems, adoption of single window approach for collection of data, single window inspection, to rationalise returns related to forex operations and introduce automated note counting and cheque reader/sorter systems.

Customer Service – Phase-II

Establish advanced levels of EFT systems across the banking sector; set up legal framework to support the advanced systems implementation.

⁸ Department of Banking Operations and Development, Financial Institutions Cell, Department of Financial Companies, Industrial and Export Credit Department and Urban Banks Department, respectively.

Organisational Support

Strategy Implementation needs organisational support by appropriate restructuring and other actions to improve the effectiveness of systems and procedures, human resources and technology.

Organisational Restructuring

Re-organise new Departments⁹: DFSR, DOS, DOPS and DIO; organise new Departments: DHRM, DITS, DOF, DOPR and Department of Corporate Communication; relocate DFC at Mumbai; establish a three tier organisational structure; Central Office responsible for policy formulation, the Zonal Offices for policy input and Regional Offices for policy implementation.

Technology

To form DITS to bring together all computer systems; Divisions of MSD and DESACS; implementing LAN/WAN for intra computer communications; office automation; efficient and reliable payment systems.

Human Resources Development

To form Department of Human Resources Management by merging DA and PPD; put in place a job–design system; take up with unions schemes like ERS, golden hand-shake and redeployment; develop training and reskilling in an automated and computerised environment; establish database on personnel and skill inventory.

Research Support

Create Department of Policy Research by merging relevant Divisions of DEAP and DESACS; Research and Intelligence Wings (RIWs) to create computerised database in various policy Departments.

Systems and Procedures

Updating operating manuals; introduce cost and budget centres and a system of Department-wise and

operation-wise cost reports; system of formal presentations by Heads of Departments on quarterly basis; integrate annual work plans of Departments with annual budgets; mechanism of contingency planning confirming to all operational Departments; introduce concept of funds planning and opportunity cost of funds; and to review need for an integrated Balance Sheet of the Reserve Bank.

The Phase-III

To review the previous phases towards the new-look of the Reserve Bank and actions in the first two phases are intended to take towards the new-look based on the objectives of strategic planning.

VI. Organisational Plan

Relevant for Departmental organisation, Regional organisation structure and top-management structure.

Objectives: better management of internal resources, responsiveness to changes in operating environment and flexibility to adapt, synergy of operations through regrouping, manageable level of decentralisation of decision-making, reduction in span of control at the top, greater focus on and strengthening of neglected areas like customer service, media relations, etc. By the end of the first phase, there would be 11 Departments in place of 25 existing Departments, by regrouping of Departments.

VII. Implementation Strategy

The features are: 1) communication of the strategic action plan under 'the strategic plan task force' internally for effective implementation and commitment 2) accountability for implementation would be the prerequisite for proper implementation and follow-up of the plan, and put up quarterly reports to the top-management committee on implementation of the plan, highlighting the problems or barriers for effective implementation.

⁹ Department of Financial System Regulation; Department of Supervision; Department of Payment Systems; Department of International Operations; Department of Human Resources Management; Department of Information Technology Services; Department of Finance; Department of Policy Research, respectively.

Appendix 9.3

Qualitative Enhancement in the Functioning of the Reserve Bank during the Post Reforms period@

Regulation and Supervision

1. Initiatives to establish Debt Recovery Tribunals across the country.
2. Constitution of Board for Financial Supervision (BFS) as also exclusive Departments to handle the supervision of banking system.
3. New institutions, viz., urban cooperative banks, non-banking finance companies, development finance institutions, primary dealers have been brought within the ambit of regulation and supervision of the BFS, within the Reserve Bank.
4. The system of on-site inspection has been strengthened as also made compulsorily 'annual' irrespective of the size of the banks, based on CAMELS format.
5. The inspection pattern has been extended to non-banking finance companies, development finance institutions, primary dealers, and urban cooperative banks in line with that of the commercial banks.
6. The off-site monitoring system introduced for aforementioned institutions, carried out by dedicated officials through online return filing, covering all important aspects of the business.
7. An in-built asset-liability and risk management system advocated for the above institutions has been introduced under the overall guidance and supervision of the Reserve Bank.
8. Financial Conglomerates Cell has been constituted as a nodal agency to coordinate with other supervisory bodies. As a step towards consolidated Supervision, the Consolidated Accounting Framework has been introduced.
9. Prompt Corrective Action (PCA), Credit Information Bureau (CIB), and Banking Ombudsman Scheme have been put in place.
10. Substantive initiatives have been taken to improve customer service in the financial system.
11. Stringent measures have been introduced to prevent money laundering practices and combat financing of terrorism.
12. Macro-prudential Indicator System has also been instituted.

13. Comprehensive guidelines have been issued to banks on corporate governance.
14. Reserve Bank has been preparing the banking system to adopt Basel II norms, select banks have already been taken for quantity impact study.

Financial Markets, Transparency and Communication

15. To improve the qualitative standards in the payment and settlement system, the Reserve Bank has instituted a separate Board for Payment and Settlement Systems and a separate department, viz., the Department of Payment and Settlement System for extending logistical support.
16. Efforts are also on to put in place the related legislative measures to prevent the electronic transactions related and cyber related frauds.
17. All important notifications, circulars are issued based on the response received on the draft placed on the website.
18. Comprehensive Data Base Management System (CDBMS) on the Indian economy is placed on the Bank's website which is updated regularly.
19. All the publications are placed for free access to the public through the website. The information system of the Reserve Bank is much ahead of the requirements of International Monetary Fund under the Special Data Dissemination Standards.
20. The Reserve Bank has been continuously facilitating the development of markets through necessary institutional changes and dynamic improvements in market micro-structure.
21. Appropriate legal, institutional, technological and regulatory framework that has been put in place has helped in increasing volumes and transparency in the primary and secondary market operations of the Government securities.
22. A number of new money market instruments, viz., Certificates of Deposit, Commercial Paper, repos, Rupee derivatives, i.e., Interest Rate Swaps (IRS)/ Forward Rate Agreements (FRA), Collateralised Borrowing and Lending Obligations (CBLO), etc., have been introduced.

@ The measures highlighted are not exhaustive.

Monetary Management

23. With the surge in capital flows, the exchange rate management emerged as a major challenge for the Reserve Bank and called for close coordination between monetary and external sector management and has been successfully handled by the Bank.
24. The efficacy of transmission channels of monetary policy has tremendously improved over the years with concerted efforts of the Reserve Bank.
25. The opening up of the Indian economy has brought about a significant change in the balance sheet of the Reserve Bank and source of liquidity in the system necessitating frequent policy interventions by the Reserve Bank by way of sterilisation.
26. A number of new Monetary and Liquidity Aggregates have been worked out and are published regularly encompassing the entire financial sector going beyond the banking system.
27. Since the year 2000, a review of the Indian Economy in the form of a document 'Macroeconomic and Monetary Developments' is released alongwith the Bank's Annual Monetary Policy Statements in April/ May. It was subsequently released biannually alongwith the mid-term review as well. Since April 2005, the reviews are being released on a quarterly basis.

Debt Management Areas

28. The Reserve Bank has set up a Consolidated Sinking Fund (CSF) since 1999-2000 to meet redemption of market loans of the States.
29. The Reserve Bank has continued its efforts to sensitise the States about the problems posed by the increasing volume of their guarantees and on the need for rationalising user charges on an objective criteria consistent with the risk guarantees.
30. The Reserve Bank also pursued a policy of converting the entire stock of Central Government non-transferable 4.6 per cent Special Securities to marketable securities by the year 2003-04, thereby ensuring availability of sufficient securities in the portfolio of the Reserve Bank to conduct open market operations.
31. The Market Stabilisation Scheme (MSS) was introduced in April 2004 to provide the Reserve

Bank with an additional instrument of liquidity management and to relieve the Liquidity Adjustment Facility from the burden of sterilisation operations.

Currency Management

32. There has been a qualitative improvement in the overall approach to the work through mechanisation and computerisation of the entire payment and settlement system.
33. In the area of currency management, the Bank went in for mechanisation of the entire note processing activity with installation of 48 Currency Verification and Processing Systems (CVPS) and 27 Shredding and Briquetting Systems (SBS) in 18 Issue Offices. The process until the adoption of this System was carried out manually by employing large staff numbers.
34. Adoption of clean note policy to ensure supply of quality notes and coins to the public.
35. With increased pressure on the distribution channels, coin distribution has been outsourced to private transport operators and the practice of the Reserve Bank staff and police personnel accompanying coin remittances has been done away with.
36. The security features of banknotes are being constantly reviewed and updated, taking advantage of the research and technology in the field, as also to ensure safety and security against counterfeiting.
37. Mechanisation of verification, processing, sorting and disposal of soiled notes through environment friendly briquetting process have been the thrust areas in recent years.
38. 'Bharatiya Reserve Bank Note Mudran Ltd.' was established (registered under the Companies Act, 1956) in 1995 to manage the two new note printing presses at Mysore (Karnataka) and Salboni (West Bengal), as wholly owned by the Reserve Bank.
39. Another significant milestone for the Bank has been the establishment of a Monetary Museum.

Human Resources Management

40. The Human Resources Development Department in the Bank is actively striving towards creating a facilitating environment to enhance the efficiency of the Bank and to catalyse conditions

for a more wholesome quality of life at the workplace as well as on personal front.

41. Initiatives have not only resulted in cutting down the complex processes and procedures, it substantially reduced the transaction costs. The Department has also enabled a significant shift in the organisational culture and the work environment.

Exchange Control Management

42. With regime shift from Exchange Control to Exchange Management, a vast area of operations relating to the control mechanisms of the erstwhile Exchange Control Department have been done away with and consequently, the Department has been down-sized and renamed as Foreign Exchange Department.

Banker to Government

43. Over the years, there has been quantitative and qualitative enhancement in the initiatives undertaken by the Bank with the introduction of technology in carrying out banking and accounting operations of the State and Central Governments.
44. The Central and State Governments can now access the secured Central Accounts Section, Nagpur website to ascertain their daily balance positions on real time basis.
45. On-line Tax Accounting System for Direct Taxes (OLTAS) project has been in operation since April 2004. The project involves 33 banks with 12800 branches aimed at flow of tax payers data from the banks directly to the Government Accounts.

The system is constantly monitored by the Reserve Bank.

- (i) Important Systems envisaged under the Reserve Bank of India Surveillance include: The Electronic Accounting System in Excise and Service Tax (EASIEST) project which envisages a comprehensive e-payment module.
- (ii) The MCA 21 is a prestigious mission mode e-governance project of the Ministry of Company Affairs, it envisages the introduction of secure electronic filing (e-filing) related to all services that are covered by the nationwide network of MCA offices.

Research and Publications

46. A host of new publications both statistical and economic and policy research oriented have been added over the years encompassing the entire operations of banking and financial sector and the Indian economy. These publications, besides being brought out in print form and on CD Roms are placed on the Bank's website. The publications have earned wide appreciation both in the domestic and the international circles.
47. A significant departure has been the adoption of theme-based approach for the Report on Currency and Finance since 1998-99. This enables the Reserve Bank to address the issues of contemporary relevance.
48. Sales and Dissemination Cells have been opened in all the Regional Offices of the Bank for wider circulation of RBI publications.

Appendix 9.4
Functional Matrix of the Reserve Bank

	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98
1	2	3	4	5	6	7	8	9
RBI Balance Sheet (Ratio to GDP)	11.65	21.83	21.62	21.09	21.54	19.82	18.29	19.26
Currency Management								
Total Notes Issued (Rs. crore)	53,807	62,290	69,795	83,832	1,02,342	1,20,107	1,34,907	1,48,550
No of Currency Chests	3864	3902	3976	4059	4099	4101	4128	4157
Total Repositories and Small Coin Depots	3422	3590	3670	3762	3806	3898	3957	4030
Regulation and Supervision Commercial Banks								
Number of Banks	272	272	272	272	281	281	287	300
No. of Branches	60220	60570	61169	63755	64234	64937	65562	66408
Urban Cooperative Banks								
No. of Banks	1397	1401	1339	1400	1431	1501	1653	1502
DFIs								
No.	8	8	10	10	10	10	9	10
NBFCs								
No.	10127	11278	11010	11270	10725	12530	-	1420
Debt Management								
Marketing Borrowing (centre+states) Rs. crore	11,558	12,284	17,690	54,533	43,231	46,783	42,688	67,386
Auctions Gross								
1. 14 Day T Bills	-	-	-	-	-	-	-	69,236.6
2. 91 Day T Bills	-	-	1,350	15,012	12,450	24,050	25,200	13,200
3. 182 Day T Bills	3,425	7,318	245	-	-	-	-	-
4. 364 Day T Bills	-	-	8,797	20,303	16,857	1,875	8,240	16,246.6
Secondary Market - Volume (Rs. billion)								
Repo (% Share)	-	-	-	-	-	-	1,229	1,857
outright (% Share)	-	-	-	-	-	-	23.6	13.26
							76.4	86.74
Foreign Currency Operations								
Forex Reserves (US \$ in million)	5,834	9,220	9,832	19,254	25,186	21,687	26,423	29,367
Payment and Settlement								
Cheques cleared (RBI) lakh Nos.	3518	4132	4618	4736	4854	4398	4715	5040
Volume of business amount (RBI) Rs. crore	18,39,460	29,22,990	32,37,473	31,98,789	35,14,402	38,02,485	45,68,598	55,62,533
		1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05
1		10	11	12	13	14	15	16
RBI Balance Sheet (Ratio to GDP)		19.33	18.59	19.50	19.96	21.10	22.09	21.99
Currency Management								
Total Notes Issued (Rs. crore)		1,72,573	1,92,535	2,12,936	2,44,655	2,75,444	3,19,761	3,61,229
No. of Currency Chests		4181	4242	4386	4422	4486	4454	4451
Total Repositories and Small Coin Depots		4046	4058	3970	3962	4076	4103	4083
Regulation and Supervision Commercial Banks								
Number of Banks		301	298	300	297	292	290	284
No. of Branches		67157	67868	67937	68195	68500	69170	70324
Urban Cooperative Banks								
No. of Banks		1748	2050	1942	1937	1941	1926	1872
DFIs								
No.		11	11	11	10	10	8	8
NBFCs								
No.		1536	1005	981	910	875	777	573
Debt Management								
Marketing Borrowing (cen+state) Rs. crore		1,06,067	1,13,336	1,28,483	1,52,508	1,81,979	1,98,157	1,45,602
Auctions Gross								
1. 14 Day T Bills		18,150	16,453	10,480	1,100	-	-	-
2. 91 Day T Bills		16,697	8,155	7,255	20,216	26,402	36,789	1,00,592
3. 182 Day T Bills		-	2,900	2,600	300	-	-	-
4. 364 Day T Bills		10,200	13,000	15,000	19,588	26,126	26,136	47,132
Secondary Market - Volume (Rs. billion)								
Repo (% Share)		2,272	5,393	6,981	15,739	19,557	24,334	21,894
outright (% Share)		17.47	15.34	18.05	23	28.8	36.31	58.91
		82.53	84.66	81.95	77	71.2	63.69	41.09
Foreign Currency Operations								
Forex Reserves (US \$ in million)		32,490	38,036	42,281	54,106	76,100	1,12,959	1,41,514
Payment and Settlement								
Cheques cleared (RBI) lakh Nos.		4891	5167	5270	5377	5980	6241	7130
Volume of business amount (RBI) Rs. crore		62,09,523	78,95,492	91,89,683	1,09,47,391	1,09,78,762	91,78,751	83,54,830