

ACCESS TO CREDIT AND CORRUPTION IN NATIONALISED COMMERCIAL BANKS

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1. ACCESS TO CREDIT:

Entrepreneur's access to credit in a bank depends on (i) availability of fund in the bank, (ii) bank's expertise in using the fund profitably, (iii) bank's skill in evaluating loan proposals professionally and (iv) bank's capability in identifying and scouting potential entrepreneurs from the open market. On the other hand, an entrepreneur should have the skill of convincing the bank regarding his ability and genuineness to have access to credit in a bank.

- **Availability of fund:** Availability of fund in a bank depends on its ability to mobilise deposits from the people. During early eighties, nationalised commercial banks maintained around 90% of bank deposits. This was not a proof of efficiency. NCBs enjoyed monopoly in the absence of significant number of private banks. Scenario changed quickly with the establishment of new banks in the private sector. Today giant NCBs together maintain less than half of total deposits, though they have largest network of branches spread all over the country. This speaks of serious weakness of their workforce and inefficiency of management. The deposit market has already shifted to the private banking sector. Access to credit in the NCBs has, therefore, been narrowed down considerably. Reversal of the trend appears to be difficult in the face of competitive ability of the private sector, which flourished through competition and never enjoyed monopoly and favour. To face this challenge, NCBs need to change their management and marketing policy, come out of monopoly culture and develop new organizational culture.
- **Use of fund:** Worst scenario prevails in the use of fund by the NCBs. Lower share of deposit mobilisation only limits availability of fund, while inefficiency and corruption in use of fund eat-up the bank's capital as well as customer's deposits. This is a self-destructive process for any bank. Extent of destruction can be measured by the extent of non-performing loans of the bank. During nineties, NPL of NCBs reached its pick at around 50% of loan portfolio. Hovering around such staggering figure for a considerable period, it gradually declined to present 20% to 25%.

The declined figure can be questioned. Is it the result of real recovery? Or is it because of large-scale waiver and book adjustment? Any waiver or book adjustment means transfer of profit to provision account, a process of eating up capital. Provisioning is a legal process of penalising the bank and not curing the disease. Through this process, NCBs have, by now, drained out huge amount of their capital on account of bad loans, at the cost of good customers. Book adjustment process has hindered equity growth, created pressure on good customers to compensate the bad ones and restrained the banks to lower the lending rate. This is a vicious circle in which the NCBs are rotating.

Even after using book adjustment process, NPL of NCBs stands around 20%, compared to around 5% of PCBs. This puts NCBs in a disadvantageous position of loan management, compared to PCBs. NCBs earn around 13% interest at present on 80% of loan portfolio, while PCBs earn 13% interest on 95% of loan portfolio.

Observers identify three reasons for staggering figure of NPL in NCBs - (i) low expertise of loan appraisal, (ii) undue influence of influential people and (iii) deep-rooted corruption in organisational culture.

- **Loan processing:** Processing of loan proposals requires high level of appraisal skills in a bank. Appraisal involves the technique of evaluating proposed project or business and also assessing the applicant's entrepreneurship and managerial ability. NCB loan appraising officers are not properly selected and trained to match their responsibility. Quantified methods have recently been introduced. In the absence of reliable and adequate information, these methods do not yield desired results. Corresponding subjective analysis stands at a poor level in the absence of professional development of NCB appraisers. Thus poor loan processing opens the door of future NPL.
- **Scouting entrepreneurs:** A good bank must have marketing competence in both the areas of fund inflow and fund outflow. We have observed that inflow marketing or deposit mobilisation efforts are stronger in PCBs compared to that of NCB, resulting diminishing market share. Outflow marketing or scouting of good entrepreneurs is also very weak in NCBs, resulting in weak loan portfolio. Scouting of entrepreneurs requires a bank to have commitment, relational skills, technical skills and organisational culture. NCBs count poor ratings in all these areas. As a result, good, potential and robust entrepreneurs are often attracted towards PCBs which succeed in scouting them and also meeting their needs. NCBs share gets squeezed again. Safety and career advancement of a manager in NCB depends on going by the dotted rules, avoiding reasonable risk, and also

avoiding pro-active role. He is a routine man, and succumbs to robust competition.

- **Inferences on access to fund:** NCBs market share in deposits and loans is either static or declining quantitatively and qualitatively, compared to those of PCBs. In business, static position is the sign of decline. Vertical comparison of a bank (i.e. comparing the bank's present with its past) is not a dependable method of judging its progress. Parallel comparison (i.e. comparing NCBs with PCBs) is more dependable method of ascertaining success or failure, because it counts market potentiality and market expansion. Such analysis does not convey good news for NCBs, which are trapped in a vicious cycle.

In recent years, there are efforts for improving the scenario. Comparative progress is not yet satisfactory. We may infer that entrepreneurs access to loan fund in NCBs still remain narrow while scope remains wide, considering their large branch network.

2. **CORRUPTION IN NCBs:** This is a vital yet delicate issue of NCBs. These banks were considerably free from corruption at the time of nationalisation. But continuous army rule and autocratic rules in the country exploited these banks, injected corruption, encouraged and provided political shelter to corrupt professionals and practices, resulting in creation of corruption culture in the organisation. Unprofessional, rather anti-professional culture was hatched for a long period of misrule, establishing a chronic disease in NCBs. Remember the proverb, "disease is contaminated, health is not." Destroying the health and contamination of disease is an easy process, which persisted in NCBs continuously for a long period. Hence it is the problem of organisational culture reconstruction, which requires careful nursing for considerable time. We may, however, identify some visible areas and carriers of corruption in NCBs. These are (i) inadequate measures of encouragement and punishment, (ii) lack of professional need-based flexibility of operation, (iii) lack of personal stake and non-accountability of nominated directors of the Board, (iv) undue interference of governmental, political and other influential persons (v) corrupt trade union leaders under political patronisation, and (vi) career advancement hazards for honest professionals. In fact, NCBs have developed as corruption breeding ground. We cite two typical yet common examples from experience and observation.

- **Case-1:** In a large NCB, the Managing Director used to approve large sum of money every day for repairing the bank's vehicles. Files were regular in respect of rules and norms. One day, he secretly came to know that most of the vehicles are neither sent to workshop, nor they are repaired. Bills for

repair were, however, passed and paid. Workshop used to get 20% of the bill for making the bill, car drivers get 20% and rest 60% were taken by CBA leaders. To stop this syndicated corruption, the Managing Director ordered to send the vehicles only to the importers workshop (i.e. Navana). Next day drivers stopped work at the call of CBA. Management faced the situation with the help of Rent-a-car companies. Drivers clashed with them and police intervened. At midnight, DGM In-charge of vehicle department desperately telephoned the MD, seeking his protection, as he came to know that police from Motijheel Thana (Police Station) was coming to arrest him in a false murder case filed by CBA leaders. MD with personal initiative contacted the top administration and stopped the attempt. CBA accused the DGM for attempting to stop corruption. Next morning, the DGM cried like a child in front of MD and uttered, "Sir, why and how we shall take such risk against organised criminals?" The MD had no answer.

- **Case-2:** The autocrat President of the country himself telephoned the MD of a nationalised commercial bank, advising him to sanction a loan of Tk.5.00 crore to a person whom he was sending. The then secretary of industries recommended a bunch of loan proposals of the tannery sector. All these proposals were examined and found highly risky and were turned down by the General Manager of the bank. The GM was made OSD. Finance Minister Gen Munim and Finance secretary did not know. File was initiated by secretary of industries and order was given by the President. Ministry of Finance came to know only after the order was passed. The GM was, however, charge sheeted for publishing a professional article, alleging that the writer attempted to excite people against the government. On enquiry, the GM was found innocent, as the charges could not be established. The file was sent to the President for approval. The President did not sign, kept the file with him and verbally asked Finance Secretary to make re-enquiry. No secretary agreed to re-enquire. Meanwhile, autocrat President resigned in the face of mass movement. Interim President Justice Shahabuddin cleared the file of the GM.
- **Outside influence breeds corruption:** Loan appraisal is a highly technical process requiring specialised knowledge, superior skill and high degree of financial and intellectual honesty. Appraiser must remain free from any pressure and outside influence. Government owned banks are vulnerable places, where governmental and socio-political influential persons bring in undue pressure for taking out money in the garb of loans, which can never be recovered. Loan seekers offer speed money or bribe with the advice, 'take it, sanction my loan or face the consequences'. Bankers feel insecure and often opt for dishonesty.

- **Corruption culture:** Corruption entered NCBs long back. Corruption was nourished particularly during the autocrat rules. Autocrat rulers attracted political support by distributing undue favour from the government owned banks, invigorating corruption culture of NCBs. Corruption got integrated into organizational culture. Hence, there was no protest or uproar within the organization. There existed honest officers. But they were sidetracked, harassed, superceded and silenced. Only dishonest officers were given good ACR by their dishonest superiors. Chain of dishonest officials nourished corruption culture at the cost of public money. Who will break the chain? Corrupt officers are 'yes men'. Influential persons in the government and society patronise them because they listen to them. They are good boys.
 - **Trade Union & Governance:** Trade union in NCBs runs parallel management. They received political strength and support from ruling political party. Surprisingly, always government supported Trade Union work as CBA. They change with the change of govt. During autocrat regime, a Managing Director of a Govt. owned bank, being harassed, desperately sought an appointment with the President of the country. The MD belonged to erstwhile CSP cadre and was a reputed person. He got the appointment. To his utter surprise, he saw that the CBA leader of his bank was standing close to the president who was intimately talking to him putting his hand on the shoulder of CBA leader. The MD came back frustrated. On another occasion, country's autocrat President joined a trade union meeting at Shapla Chattar and in his speech mentioned the CBA leader as his 'younger brother'. Trade Union leaders of NCBs are fabulously rich. They always refuse promotion to remain labour leaders. They dictate transfer, posting, promotion on monetary consideration. Management often has to swallow bitter pills. Trade union leaders also work as Dalals for getting loans sanctioned. Thus trade union practices strengthen corruption in govt. owned banks. Minister for Finance Mr. Shah A.M.S. Kibria in 1998 formed a Task Force for trade union reform. He discussed reform recommendations in the cabinet meeting, but failed to get it through, because of opposition by influential political leaders. Organizational linkage between political party and trade union is a vicious obstacle in managing corruption in govt. owned banks. It may be mentioned that private sector banks have no trade unions, as they do not recruit any non-officers.
3. **POINTS TO PONDER:** Problems of corruption and consequent mismanagement as well as shrinkage of access to fund have been discussed by the academicians, news media, civil society and professionals. Political authority could not be sensetised.

Government at the instance of World Bank took up isolated reforms bringing in little tangible results. Corruption is now deeply set in NCBs. Half-hearted reform will not work. Drastic reform is necessary on pointed issues. Political commitment is necessary for this. Let us ponder over a few delicate yet critical issues.

- **Compensation package for top management:** CEOs of NCBs were given pay of Tk.6.00 to 8.00 lacs, isolating them from entire organisation and creating serious conflict. In the 'CEO versus bank' game, the bank suffered. CEOs may be given Tk.3.00 lac and General Managers be given pay package of Tk. 2.00 lac. This will facilitate formation of a top management team for working together.
- **Tadbir Management Technique:** Cabinet should take a decision and Ministry of Finance may issue orders to all NCBs instructing that - (i) Recommendation, verbal or written, by any person regarding sanction of any loan/facilities will disqualify the proposal. Such recommendations and consequent refusal of loan should be compulsorily published in at least two national dailies for public information, as it relates to public fund. Publication must mention the name of recommending person, whether verbal or written, date, time and mode of receipt, name of loan proposal and amount of loan. Loan tadbir diary must be maintained by NCB. (ii) Recommendations for appointment, transfer, posting and promotions must be maintained in a diary and must be inserted in the personal file of respective employee. Without exercising his right to make personal representation to higher authority, if an employee prefers tadbir constantly, he may be charge sheeted for misconduct.
- **Corruption Curbing Efforts:** Corruption chain in the bank must be broken first by frequent transfer of loan processing and sanctioning officials. Anti-corruption agency may depute intelligence officials to identify corrupt bankers and trade union leaders, locate their bank accounts and wealth, and prosecute them. This is important for breaking the chain. Appraisers of bad loans should be taken to task. If NPL of any NCB far exceeds industry average, top management should be taken to task. Hire and fire system of NCB should be flexible and operational. Officials of the rank of DGM and above should be selected on the basis of integrity and skill, and be appointed on contract basis. This has to be incorporated in Employees Service Rules.
- **Trade Union Reforms:** Task Force formed by the government for framing an action plan for trade union reforms under "Commercial Banking Restructuring Project" on 29 July 1997 vide Ministry of Finance Notification No. অম/ব্যাবি/শা-৯/৯২/৯৫(অংশ-১), submitted report on 19 February 1998. The report was discussed in the meeting of Economic Committee of Ministers and Cabinet meeting. It was

neither rejected nor accepted. Nexus between govt. political party and trade unions favoured the unionists. Finance Minister of next government took it up again but failed to push it through for the same reason. Present government is strong enough for taking steps towards good governance in NCBs. Some important recommendations of the report are mentioned here:

- (i) CBA and other trade unions must not operate at regional level. Regional and branch offices of NCBs must be cleared of trade union offices. CBA should work only at Head offices of banks. Management may provide trade union one office room either in the Head Office or in any rented premises.
- (ii) Labour Act may be revised allowing only one Trade Union in an organization. Different pannels will seek election under one umbrella. This provision existed in the Labour Act, which was changed by autocrat govt. for political purpose.
- (iii) Trade Unions must be delinked from political parties. Law ensured it once. Autocratic regime changed the law for political purpose.
- (iv) Employees Service Rules should include a provision, "No employee or group of employees shall shout, utter slogans or demonstrate during office hours in any bank branch or offices. Violation will be an offence, demanding major punishment."
- (v) Trade Union should grow as a democratic organisation and CBA election should be held every year. Existing committee will stand inoperative, if election is not held on time.
- (vi) President, Secretary and other office bearers of CBA shall be eligible for election for two terms. They will disqualify for further term, allowing new leadership to come in. This will facilitate democratic culture.
- (vii) Any employee refusing promotion to higher post shall disqualify himself for contesting CBA election.

Will the government, owner of NCBs, consider the issues rationally for strengthening government owned banks?

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