



## GONE WITH THE WINDS- BGB<sup>1</sup>

Sitting in the armchair, Matin Shaikh, newly appointed ADM (Additional District Magistrate), Bardhaman Gramin Bank (BGB) was pondering over his day's performance. Though the day was hectic, visiting 4 branches of Regional Rural Banks (RRB's) in Bardhaman and Hooghly had made him think time and again about the overall efficiencies and effectiveness of those banks. The ex-officio post as a member of Board of Directors was shocked to realize the upcoming challenges about the relevance and operational dynamics of several branches of RRB in Bardhaman and its neighboring district Hooghly. To Mr. Matin Shaikh all this sounded very puzzling because this was very much unlike to what he has learned in his recent training programme on Microfinance at MANAGE.

### **BGB- A brief introduction**

Bardhaman Gramin Bank (BGB), sponsored by UCO Bank, was set up under the RBI Act, 1976 and came into existence in West Bengal in 1980. The two districts allotted to the bank were Bardhaman and Hooghly, both rich and prosperous agriculturally and industrially, in West Bengal. The bank is having a network of 90 branches, out of which 71 are in Bardhaman and 19 are in Hooghly. BGB's work force has increased from about 27 in 1980 to the 486 till date. For details on equity holding pattern of this bank see Annexure I.

Mr. Matin remembered his stay at Mussorie (with his wife), where one evening sitting in the balcony and going through the newspaper he read about the broad objectives of RRB policy in India, which states that apart from maintaining a reasonable degree of profitability a good Cash to Deposit ratio is to also to be maintained and to ensure adequate expansion in credit to assist the growth in rural areas. He is also aware of the new regulations, which says, RRB will now have to ensure that 40% of the advances are accounted for priority sector advances. Under the new Central bank guidelines, RRB's within the 40% priority sector target will have to ensure that 25% go to weaker sections of society or in other words 10% of their total advances to the weaker sections.

### **BGB-Organizational Culture**

Mr. Matin has visited several parts round the globe, after his schooling in US he came back to India. In India he has spent a significant part of his life in Pune district in Maharashtra. Since his posting in WB, time and again a thought is tickling in his mind about the pathetic condition of the rural folks. A state blessed with nature's bounty can go on cross roads due to mismanagement and complacency in attitude. As his visit to "Memary" branch of BGB was a surprise visit, he really got worried after seeing no one in the branch just the Branch

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<sup>1</sup> This case is prepared by **P. Siva Kumar Varma** and **Nitin Kumar Lal Srivasthava**, students Of MANAGE (National Institute Of agricultural Extension Management) with the help of Prof Ram Kumar Kakani, XLRI Jamshedpur. It is purely to be used as the basis of classroom discussion rather than to effective or ineffective handling of the administrative situation



Manager (BM) and a peon. Most of the rural branches were located in the best among the worst premises offered by the village landlord and have not financed them for necessary locations. In his meeting with the BM at one of the branch, he heard some noises. The BM called his peon and asked him to find out what is happening. After some time the peon returned and told the manager that one impatient farmer got into a brawl with the clerk. After the meeting with the BM was over, Mr. Matin enquired with the farmers who were standing there with their deposits. He learned that the farmers have to travel long distances to come to the branch and at bank there are no seats on which they can relax, no water to drink, and other convenience facilities missing. The farmers also mentioned complaint about the bank employees who are rarely found on their seats, they are either having tea on the nearby shop or gossiping with each other. They also were agitated with the bank being locked at the time when they need funds. Mr. Matin then asked them why haven't they logged a complaint with the BM, the farmers told that they can't meet him without prior appointment in tune with the banking norms, and it takes a lot of effort for them to come all the way to the bank. Mr. Matin noticed displeasure written all over the faces of the farmers. It was 12'O clock in the night and he tried hard to push the thoughts out of his mind and go to bed but the hallucinations of farmer's faces and the mystifying financial for the last couple of years (see Annexure-III) were not getting out of his mind even for a second.

### **BGB- Organizational Structure**

Mr. Matin was aware of the bank being centralized and decision making layers being considerably high up in the hierarchy so he decided to call for an urgent meeting with the top officials of the bank in a week. The bank organization set up comprises broadly 4 tiers, i.e. CMD, Head Office, Area Office and Branches (see Annexure-II). The bank's being centralized and decisions are taken only by the top management, is evident from the authority given to the managers at different levels to sanction loans up to a limited amount. The sanctioning limit for the different layers of the managers is given in table 1. These figures are very low as can be seen by the fact that for the bank with annual advances over Rs. 4600 lakhs.

Post	Fund based limits	Projects on Agriculture
Chairman	25	25
General Manager	6	0
Senior/Area Manager	3	0
Manager/Officer-in-charge	1.5	0

Table 1: Showing the limits for sanctioning loans for senior management (Figures in Rs. Lakhs).

Head Office formulates the policies, directs and does the planning. It also coordinates and controls the functioning of Area Offices. Area Offices implements and executes the directions from Head Office to the branches under control. The Sr. Mgrs., CAI, Area Managers are all of the same level. With the changing environment and surrounding the Organizational structure of the bank has to be continuously reviewed and modified.



### **BGB-Staffing**

Next morning Mr. Matin called the General Manager (GM) of the bank to enquire about the job responsibilities in the bank and was surprised to learn that the management doesn't believe in Job rotation. It is an unfavorable feature of the bank, that it doesn't encourage its employees to take the initiative and share their voice option. Mr. Matin felt really sorry when he learnt about the management being highly skeptical of recruiting managers from institutes like MANAGE and IRMA, who are pioneers in producing Agricultural and Rural Extension Managers. But Dr. V Kurien said that the Managers from most B-schools are incompetent to serve at the grass root for the rural people, as they have very high switch over rates. During the discussion the GM hinted that the top management are transferred from the Lead Bank and the other staff of the bank were recruited through the examination procedure in tune with the BSRB's bank PO exam to attract the best talent. It is seen that most of its managers are based in Kolkatta. Promotion in the bank was strictly on seniority basis and most of the employees supported this system. Three years back, the then GM tried to involve a performance based component for promotion in congruence with the seniority basis, but it failed drastically because of the resistant raised from the hierarchy levels on the basis of unavailability of any standard scale for measuring performance. For the Area Manager no two cases are similar *viz.* one case of credit recovery is entirely different from the other case of credit recovery in terms of element of risk and effort associated with that. So, no two successful cases can be criteria for performance evaluation. After a long discussion with the GM over phone, Mr. Matin realized that complacency and lack of commitment has penetrated deep enough to destroy organizations shared value.

### **BGB- A confused ADM**

Unable to sleep and still perplexed by what to do, he suddenly recalled his training days at IAS academy, and their entire batch spent a week at Bankers Institute of Rural Development, Lucknow. It reminded him one of the seminars, which he attended on "Best Practices in Credit Recovery". That seminar advocated that each case of credit recovery should be handled separately. There should be defined line of responsibility differentiation between the hierarchical levels in terms of loan disbursed and degree of complexity involved in credit recovery. Implementing the understanding from that seminar in BGB, Mr. Matin realized the frequent problems because of improper demarcation of responsibilities. The transfer for a staff at managerial level is mandatory but the other staff members consider it as punishment, as it totally disturbs their established system of livelihood. Only transfers from rural branches to urban branches (till date only 2 urban branches are present) are celebrated. Mr. Matin strongly follows the Private banks in urban areas, which are running successfully, employing their own model for salary estimation based on the performance of their employees. It is seen over the period that this system has really boosted the morale of the employees and has enhanced the performance of the bank.

### **BGB- Financial Condition**

Next evening Mr. Matin sitting with his friend Mrs. Neetu Mishra, Chartered Accountant by profession, he discussed about the financial performance of his bank in comparison with



Howrah Gramin Bank (Bank similar in nature). The Annual report of BGB says that, “A sum of Rs 1498943.75 has been taken as interest income in the Profit and Loss Account on account of staff housing loan since inception during the current year 1995-96 which were not taken in earlier years. Advances include amounts due from defaulting borrowers. The bank has considered these recoverable after taking into account claims, (lodged by DICGC<sup>2</sup> but not yet settles available under DICGC, legal proceedings against them and prospects of recovery”. The Auditors report to the member’s states “.....62 branches are audited by us and rest 28 unaudited branches. The branches audited by us are selected by the bank”.

A review of loan recovery rates had made him feel a little good about the small farmers. Measures to contain NPAs were met with limited success. A highly motivated employee confided reasons for high NPAs to be the confidence in defaulters (that BGB system will not take any action against them), lack of motivation & appraisal/recovery skill among BGB employees, lack of proper monitoring of borrowal accounts & mismanagement of the recovery campaigns and the slackness of the employees.

### **BGB- An attempt to restructure**

Mr. Matin made the agenda as “BGB-ways to make it profitable and competitive” and circulated the same among the higher officials. He asked the officials to do some homework before coming to the meeting, i.e. to come with at least 10 SMART (Specific, Measurable, Achievable, Realistic and Time bound) action plans based on their experience and foresightedness. Along with the letter for meeting, Mr. Matin also attached a technical write up to every one, which would help them in making the action plan.

The technical write up circulated was as follows: -

*As country is moving to a different sphere of economic dimension, the contribution of rural masses in the wealth generation of the country has gained momentum than ever before. Time and again the success stories of several SHGs and news of theirs savings mobilization along with their coordination with local banks makes us cheerful and hopeful about the vibrancy of the banking system. But at the same time some frustrating junctures of inefficiency flashed in some other parts really make us ponder about the policy framework, motivational framework level and implementation inertia of different functionaries at different levels. These percolated efficiencies into the system has called for this action oriented urgent interactive meeting in time with the following agendas:-*

- To find out the reasons for consistent indifferent performance of BG *viv-a-vis* its peers.
- To establish a scientific recruitment policy which can be advocated at the National level.
- To define proper roles and criteria among different professional to reduce responsibility conflict and to take prompt decision (specially in credit recovery mechanism).

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<sup>2</sup> Deposit Insurance and Credit Guarantee Copy



- To explore the viability of tying up with different channels for saving mobilization.
- To develop an evaluating model for borrowers credibility.
- To identify some non-fund based activities by BGB for additional income generation.
- To explore the option to some custom based credit products or some innovative credit products catering to different segments along with their efficient marketing strategies.

As we know a successful model of rural banking of an area may not be successful in another area with different socio-economic and cultural environment. So the problems and different requirements of BGB are unique to its nature and only people like you with long associative and close supervision with BGB, can come up with innovative and progressive solutions, which will bring significant difference in the life of those poor folks. Your degree of effort will be reflected as smile on those impoverished faces.

### **BGB- Auditing**

A day before the meeting Mr. Matin Shaikh thought of meeting the Internal auditors so he went all the way to the Inspection department to meet them. He met Mr. Vinu Mishra, an auditors working for more than 10 years in the bank. During his discussion with some snacks and tea, Vinu told Matin that the Chief Managers BGB (or Senior Managers of the area) could personally conduct an audit of their bank's branches in their area on long-term financial operations. Vinu also mentioned to Matin about the limitation of internal auditor to able to an audit for business of only 10 Crore Rs. For large branches occasionally the branch managers can do the audit themselves. Vinu shared with Matin about his responsibilities on evaluating the accounting functions and decisions in terms of organization, administration, budgets, forecasts, management statements, cost control and profit plans. He mentioned about the managers who do the audit basically on the recovery of interests and principals of new accounts, such that they can identify the potential default accounts to take immediate rescue measures. With the discussion between Vinu and Matin getting extended Vinu mentioned to Matin about the investment of the non-SLR funds by BGB in debentures/bonds and other securities. He also told about the credit department devoting more attention on the monitoring specific exposures and in identifying problems within these exposures. He also mentioned about the non-fund based businesses by BGB, which includes the commission earned through collection of bills and payment of primary teachers activity.

The discussion of Matin with Vinu revealed some puzzling scenarios. But by the end of the day Mr. Matin has realized that the CMD of the bank is very much profit oriented, i.e. he wants the profits for the banks to be reflected in the balance sheet.

Consider yourself as Senior Manager of BGB. Prepare your 10 points Action Plan (as determined by you) to present in front of Mr. Matin Shaikh.



### Annexure-I

The equity composition of BGB shows that the state government holds equity of 15%, NABARD and RBI together hold 50% and its sponsorer UCO BANK holds the rest 35%. The bank from the time it was set up was continuously incurring losses, the last two years its audited accounts points to a turnaround. To come out of the docks the Bank prepared a Development Action Plan (DAP) for the period 1994-99 and has signed a Memorandum of Understanding (MoU) with UCO Bank in 1992. For the year 1996-97 it has shown a net profit of Rs 1.04 crores; BGB has clocked a business of or Rs 192 crores, which includes deposit, of Rs 146 crores and advances of Rs 48 crores.

### Annexure -II

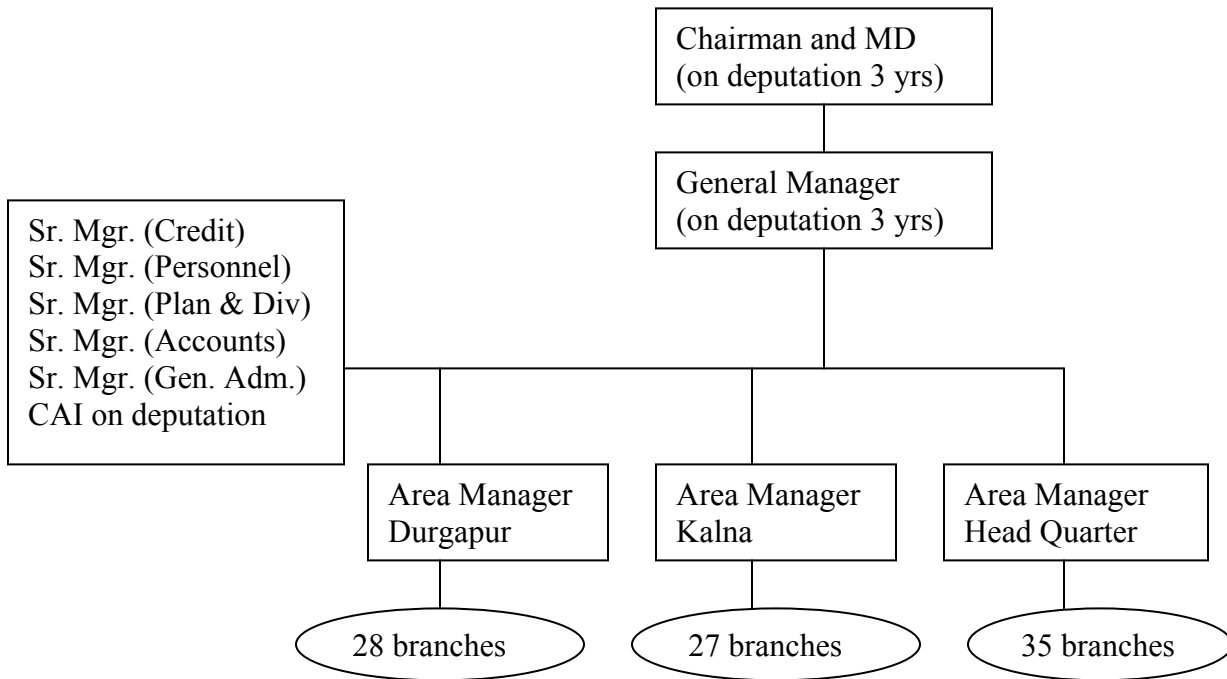


Figure showing the existing Organization structure of BGB Bank.



### Annexure-II

Financial numbers	Bardhaman Gramin Bank 1994-95	Bardhaman Gramin Bank 1995-96	Howrah Gramin Bank 1996-97	Benchmark
No. of branches	90	90	59	123
Work force	492	486	306	120
Deposit outstanding	8211	10781	9700	18500
Deposits growth	28%	32%	36%	
Borrowings	915	943	573	5000
Borrowings growth	27%	27%	13%	40%
Loans outstanding	3920	4358	3144	20000
Noon-target group loans issued during the year	NA	612	1140	
Priority sector outstanding	3264	3663	1872	
Non Priority sector outstanding	377	694	1272	
Investment outstanding	4180	6976	7562	
Total business	11291	14413	12871	28000
Credit to Deposit ratio	48%	43%	32%	132%
Investment to Deposit ratio	55%	69%	78%	28%
Recovery rate	40%	55%	52%	94%
Annual Monthly working funds	713	916	858	1960
Net Worth (Deducting accumulated losses)	-517	134	452	1000
Interest receivable to interest income	26%	49%	27%	Less than 10%
Defaulted loans to new loans	36%	35%	62%	0
Additional loans per employee	0.4	258	3.73	9
Additional deposit per employee	2.58	5.29	8.41	13
Total loans per employee	7.4	9	10.27	90
Total deposits per employee	16	22	31.78	90
Net profit	-284	-194	132	529
Operating profit	-146	1	198	900
Salary & wages to Operating expenses	33%	32%	25%	13%
NPA	60%	56%	40%	6.5%
Non-fund business income	NA	NA	5.66	25
Non interest income/Total income	10%	7%	4%	4%
Interest income to average monthly working funds	111%	124%	156%	200%
Operational expenses to average monthly working funds	145%	133%	139%	75%
Net profit to average monthly working funds	-40%	-21%	15%	20%
Net profit to net worth		-145%	29%	53%
Operating profit to net worth		1%	44%	90%
Business per branch	135	160	238	381
Operating profit per branch	-1.63	0.012	3.36	731
Business per employee	25	30	46	200
Operating profit per employee	-03	0.002	0.65	7
Time deposit to total deposit	47%	54%	57%	50%
Demand deposit /total deposit	53%	46%	43%	50%
Total debt to Net equity ratio (including shares and capital deposit and deducting the accumulated losses)	-19	97	27	5.6
Total debt to equity ratio (including shares and capital deposit and deducting the accumulated losses)	130	14	18	5.6
Return on Assets (RoA)	-2.9%	-1.4%	0.12%	10%

Note: All the figures are in Rs. Lakhs (except for those in percentage) and due to the non-availability of information, for BGB the total loans overdue are taken as its NPA