

Put SMEs at the centre of attention

Managing director of BRAC Bank says SMEs are crucial to job creation

MD FAZLUR RAHMAN

BANKS and the government should do more for small and medium enterprises (SMEs), an economic lifeline for the country, a top banker said.

"SMEs are at the heart of the economy. The more the SMEs will perform, the better the country will perform. Even in developed countries, the focus is on SMEs," said Syed Mahbubur Rahman, managing director and chief executive officer of BRAC Bank.

"As we are a least developed country, we have no other alternative, as employment creation is crucial," Rahman told The Daily Star in an interview.

Set up in 2001, BRAC Bank is the largest SME bank in the country. Of its Tk 9,000 crore loan portfolio, SMEs account for 50 percent. Of the SME loans, 92 percent are without collateral with an average loan size of Tk 6-7 lakh. It has 151 branches and 405 SME units across Bangladesh.

In the last 10 years, the bank has lent over Tk 15,000 crore to over 3.5 lakh SMEs.

Rahman said building the belief that banks can lend to SMEs and profit is BRAC Bank's main achievement. "We have shown the country, as well as the world, that SME is a sector where banks can lend and grow. The sector has also received recognition."

"BRAC Bank's success today is mainly for its success in SME banking." The bank was given the 'Sustainable Bank of the Year' award in 2010 by London-based international newspaper Financial Times and IFC, a member of the World Bank Group, to recognise the bank's leadership and innovation in integrating social, environmental and corporate governance in operations.

In Bangladesh, SMEs account for about 45 percent of manufacturing value addition, 80 percent of industrial employment, 90 percent of total industrial units and about 25 percent of the total labour force. There are about 60 lakh SMEs and micro enterprises in Bangladesh, according to Asian Development Bank.

"When we started banking 10 years ago, SME financing was like reaching out far. Now you will see banks are coming forward with financing for SMEs. Bangladesh Bank has pushed the banks and motivated them."

He said the banks should focus more on the SMEs. "One day, these SMEs will become large corporate entities. As a result, the country will develop as there are only a few large corporate houses in Bangladesh. From all aspects, this is something we need to work on."

He said the bank performed better last year than in 2010, operating profit wise. "But we are not happy with performance as we had expected more. We faced some problems last year. We tried to increase shareholders' returns. We have been successful in doing so."

"But 2012 is going to be more challenging. There are many macro-fundamental issues. The liquidity pres-



Syed Mahbubur Rahman

sure could be a challenge. There are also problems in the balance of payment."

The record remittance inflow in December gave a ray of encouragement to the industry. "If we can maintain this flow and move forward in the same pace, then it will have a positive impact on our foreign currency and balance of payment."

The managing director said wooing foreign direct investment would also be a challenge. "We have to work on the issue. The behaviour of crisis-hit Europe, a major buyer of Bangladesh's garments, will be crucial."

The banker called for the right government steps to tackle these issues. "Recently, the generalised preferential system for sleeping bag was withdrawn. In many countries, anti-Bangladeshi lobbyists are always present. It is more important to neutralise them."

He said Bangladesh has to explore more markets to send more workers. "Qatar and Oman could be our labour export destination. There will be a lot of construction work in Qatar as the oil rich country is going to stage the Football World Cup in 2022."

"Perhaps the government is taking steps to send people to Qatar, but efforts should be accelerated. We also have to deepen our relationship with the Middle Eastern countries."

He said Bangladesh also needs to send more skilled workers to enhance value addition, rather than relying on low or unskilled workers.

The managing director said the bank's SME banking segment has done well in 2011, with lending growing by about 18 percent.

Industry people say the country's top 50 borrowers are responsible for a large part of the non-performing loans, creating pressures on the banks, compared to the small borrowers. The big borrowers have the capacity to fight and do not care about repayment. If they face any problem, they file a case and the cases continue for years.

Rahman said, "The small savers always try to repay the loans. We believed that SME was a segment where we can put money. There were high risks involved. Nonetheless, we went on to lend to them because we trusted them."

He admitted that banks also tend to lend in sectors like trading where repayment is quicker, rather than to entrepreneurs who take time to start paying back loans. "The banks like short-term loans because there is no long-term deposit instrument in Bangladesh. Our deposit instruments mature at a maximum of one year. If we get deposits for a year, how can we lend for three years?"

"We have a problem in the financing model. We do not have long-term deposit instruments."

He said an infrastructure bottleneck is a serious problem for SMEs. "A small entrepreneur does not know what the price of his products should be, where to sell and how to market."

"Many do not have an idea on market opportunities. They cannot prepare a proposal for banks. Here, our staff meet them and prepare proposals for them with the required information."

"If the 'man behind the machine' is not good, you will not get your money back. So, it is important to enquire about the loan-seeker before lending to him or her."

Rahman, who has been working with BRAC Bank since November 2008, said he does not completely rule out the allegation that loans meant for SMEs are sometimes diverted to other sectors, including the stock market.

"For example, the number of women entrepreneurs in the country is not too high. In many cases, a man works behind a woman entrepreneur. So, we cannot say there is no loan diversion."

He also thinks the definition of an SME is vague. "The definition is actually driven by the number of jobs it has created and/or the asset it owns."

"For example, a trading office in a tiny room can handle billions of taka with a turnover of Tk 1,000 crore. Is that a SME or a corporate? I think the definition for SMEs should be based on turnover."

"I have worked for some foreign banks where the SME definition is based on turnover."

He said BRAC Bank tries to look at the end use of the funds to stop money from going to unintended sectors. "We also conduct post audits to see where the funds were used. We have about 1,600 client relationship officials and 405 SME unit offices, so we are very close to our customers."

"They are there not only to see the end use, but also come to know about the problems the customers face. We always advise our officials to stay close to our customers so that they become the first one to know if any problem surfaces."

He said the country's banks are now interested to lend SMEs buoyed by the success of BRAC Bank and the special attention from the central bank.

On agriculture loans, disbursement should not have gone down in the first five months of the current fiscal year to November. "It however depends on the aspirations of the banks and opportunities."

Banks have achieved less than a third of the farm credit disbursement target in this time, which is nearly 6 percentage points lower than the same period a year ago.

BRAC Bank topped the list with more than 82 percent of Tk 141 crore credit disbursement during the period.

He thanked Governor Dr Atiur Rahman for providing effective policy guidelines for the SME sector. "He has played a key role in lending more to the SMEs. The most encouraging thing for the sector is there has been follow-up from the governor. Cluster-based financing is another good thing he has done. He has even created pressure on the state-run banks."

He said the deposit rates and the

cost of infrastructure and distribution impact the fixing lending rates. "SMEs need to be monitored closely, which requires money."

The overall NPL of BRAC Bank is roughly 5 percent, which is a little over 6 percent for SMEs. Cyclones such as Sidr and Aila are largely responsible for such bad loans.

On the situation in the stock market, he said, "Nothing will happen if there is no trust and confidence -- no matter whatever steps you take."

Rahman said they plan to take the bank to a new height. "We want to be the best bank in terms of services to customers. We want to take banking to people's doorsteps."

"BRAC Bank wants to be a bank for all Bangladeshis. We believe in inclusiveness. We want to make banking easy for our customers and we want to be socially responsible."

He said the bank plans to branch out abroad. "We have bought an exchange house in Birmingham. We have achieved a lot from the house."

The exchange house sent 10.6 million pound sterling to Bangladesh alone in December, the highest remittance sent by any institution based in UK, he said.

Rahman said the bank prioritises women entrepreneurs. "We also have a set target for them, which we follow continuously." The loan outstanding for women entrepreneurs stands at Tk 350 crore.

Earlier this week, BRAC Bank co-sponsored Lead 2012 -- an international gathering aimed to encourage young entrepreneurs in South Asia.

Rahman thanked SAARC Chamber and the Federation of Bangladesh Chambers of Commerce and Industry for taking the initiative to organise the two-day convention.

Last year, BRAC Bank launched bKash, a mobile financial service provider that aims at financial inclusion. "It could be another milestone in the history of the bank."

"Over 8.5 crore people are enjoying the telecommunication service, but 20 percent of the total population have bank accounts. If we can expand mobile banking, it will be a huge thing, as everybody will be integrated with the formal economy through the mobile wallet. As a result, the size of the economy will also grow."

"We have already signed an agreement with Robi. We are talking with other mobile operators. Very soon, we will sign deals with some more operators. Once we sign with them, we will get a big push for the mobile wallet system."

Launched in July last year, bKash now has 60,000 customers.

He said the main problem with remittance is that recipients withdraw their money in most cases.

"If we can make mobile banking a full-fledged service, the money will go to the mobile wallet directly. This mobile wallet will be connected to a bank. Even if the beneficiaries do not have a formal relationship with a bank, they will have a virtual account on a mobile. As a result, the money will remain in the formal economy."

fazlur.rahman@thedailystar.net

"Banks should focus more on the SMEs. One day, these SMEs will become large corporate entities. As a result, the country will develop as there are only a few large corporate houses in Bangladesh. From all aspects, this is something we need to work on," says BRAC Bank Managing Director Syed Mahbubur Rahman