Put SMEs at the centre of attention

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

MD Fusilur Rahman

BANKS and the government both talk about 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 perform, the better the country will perform. Even in developed countries, the focus is on promoting these SMEs,’ said Md 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 8,900 crore loan portfolio, SMFs account for 50 percent. Of the SME loans, 90 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 Tk 15,600 crore to over 3.5 lakh SMEs.

Rahman said building the belief that banks can lend to SMEs and credit 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 Banking Award’ in 2010 by London-based international newspaper Financial Times and IFC, a member of the World Bank Group, to recognize BRAC Bank’s leadership in the field of innovative activities 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, 60 percent of total industrial output, 25 percent of the total labour force. There are about 60 lakh SMEs and micro enterprises in Bangladesh, according to Ashut Development Bank.

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

The bank says it will 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.

For example, a trading office in a tiny room can handle billions of takas with a turnover of Tk 1,000 crore. Is that a SME or a corporate? I think the definition of 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 400 SME unit officials, so we are very close to our customers.

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

He said the country’s banks are now interested to lend SMFs because of 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 leading more to the SMEs. The most encouraging thing for the sector is there has been follow-up from the government.’

SMEs are the engine of the economy, the government said.

Government has taken several initiatives to support SMEs, including tax relief, incentives, and special funding.

SMEs are important for job creation and economic growth, the government said.

The government is working on creating an enabling environment for SMEs to grow and succeed.

The government has set a target to finance 3 million SMEs by the end of the current fiscal year.

As of December, about 2.8 million SMEs have been financed.

Rahman said the main problem with remittance is that recipients withdraw their money in cash.

If we can create 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.

Banking is going more challenging. There are many micro-fundamental issues. The liquidity pressure can 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 pressures on the balance of payment. What 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 payments.

The managing director said wooring foreign direct investment would also be a challenge. ‘We have to work on the issue. The behaviour of US-based 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 preference system for sleeping bag was withdrawn. In many countries, anti-Bangladesh lobbies are always present. It is more important to neutralise them.

He said Bangladesh has to explore more markets to send more workers. ‘Our product, the garment, can be our export destination. There will be a lot of construction work in the oil rich country 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 problems, they file a case and the cases continue for years.

Dakshin Rahman

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