

New BB policy may hit SME financing

New BB policy

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Financing the small enterprises in the country is apprehended to be affected badly if the central bank's newly announced loan provisioning policy comes into effect, ultimately hindering the inclusive banking, according to a top official of a SME-focused bank.

"The small businesspersons mostly take term loans for two-three year. Provisions of such collateral-free small loans will considerably rise under the new policy, discouraging the banks to finance this particular sector," Syed Mahbubur Rahman, Managing Director of BRAC Bank, told the FE in



Syed Mahbubur Rahman

an interview recently.

Appreciating the Bangladesh Bank (BB)'s initiative in terms of the whole banking sector, Mr

Rahman, however said the small businesses will be affected by the new policy.

Comparing the small enterprise sector to a child,

he said, the child is now creeping; it should be given a certain period of time for the sake of its survival so that it can stand on its own foot.

He urged the central bank to continue earlier loan provisioning policy for the small business for at least more five years so that both banks and customers are structured and prepared within the period.

Tightening rules for classifying and rescheduling the loans, the central bank recently issued directive, under which the banks will have to treat the loans, which is overdue for nine months and above, as 'bad or loss' loan. Earlier, the timeframe was 18 months or above.

Thus, the timeframe of categorising the loans as 'substandard' and 'doubtful' was reduced considerably at the new policy.

The new policy will increase both provisions and non-performing loans (NPL) against the funds disbursed to the small businessmen. As per rule of thumb, the NPL will be almost doubled. The increased provisions will reduce profit and distributable liquidity, the BRAC Bank MD said.

"BRAC Bank is a SME-focused bank but at the end

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of the day it is a commercial bank as per the BB rules. Whenever, my bottom line will be impacted highly, I will try to get out of that particular segment and get into more profitable ones changing the current (SME-focused) banking model because our main responsibility is to protect the shareholders' interest," he said.

Others might also be discouraged to finance here, ultimately affecting the small business, he said.

Fall of the banks' profit may impact on the capital and consecutively the confirmation of letter of credit (LC) from the foreign banks will be hampered, negatively affecting the bank-business in the country, he apprehended.

While expressing vulnerability of small enterprises compared to other businesses, he said the small loan on the one hand is 'collateral free' and on the other hand has only one revenue-source, making this sector as more prone to bad-impact under the new BB move.

In a query, he said he BRAC Bank is gradually extending its focus to provide innovative services such as cash-cycle loan instead of traditional term loan based on the demands of particular industries and customers.

"We want to do business following demands of the customers so that they get a delightful experience with BRAC Bank," Mr Rahman, who is also chief executive officer (CEO) of the bank, said.

Evaluating the bank's performance, the MD said that BRAC Bank started business about 11 years ago focusing SME sector, which was not discussed at that time. After the bank moved in this connection, now all including the central bank are thinking about it and even an SME foundation was established that is a big achievement of the bank, he added.