

In lending, small is beautiful

Managing director of BRAC Bank reinstates commitment to SMEs

MD FAZLUR RAHMAN

BRAC Bank plans to shore up its lending activities towards small entrepreneurs this year in a bid to further narrow the SME finance gap, the company's chief executive officer said yesterday.

"Small has always been our focus, but we have decided to reaffirm it," Syed Mahbubur Rahman, the bank's managing director, told The Daily Star in an interview, adding that a countrywide campaign is on the way.

The bank's lending towards small and medium-sized enterprises (SMEs) is growing at 20 percent a year, while every month it disburses about Tk 450 crore among them.

Its outstanding loans from SMEs stand at Tk 5,100 crore, which is 51 percent of its total loan portfolio; 90 percent of the banks outstanding SME loans are mortgage-free.

The current political situation, he said, is weighing heavily on the bank's loan recovery prospects.

"A stable political scenario is vital for SMEs to properly utilise the loans they take. Only then would they be able to service them, as most of the SMEs are roadside businesses or small boutique houses."

The bank with the help of Dhaka University's finance department regularly conducts impact assessment study to verify how the loans are being used, Rahman said.

The study also attempts to deduce whether there is any value addition to the borrowers, if their asset base has improved or whether any jobs have been created for women.

"We are also planning to strengthen our mobile banking arm, bKash, to take financial services to more people across the country," said the BRAC Bank MD, while hailing Bangladesh Bank Governor Atiur Rahman for spearheading financial inclusion efforts over the last four years.

At present, only 20 percent of the population are estimated to be under the banking umbrella.

During the interview, Rahman waded into the debate surrounding bank spread, the difference between the bank's deposit and lending rates.

The business community and industrialists have long been accusing banks of overcharging.

"It is a market-driven economy -- there is no scope for anybody to determine anything."

He said the spread depends upon efficiency in the management of deposit costs.

"If we can manage the cost of deposits efficiently, our lending rates become competitive and -- our spread goes higher."

The BB rules stipulate that the spread be calculated on the basis of corporate loans and excluding loans to the consumers and SMEs, said the BRAC Bank MD.

"But in most cases, the spread is calculated on the basis of the whole balance sheet, which does not reflect the reality."

Rahman said the spread should be based on each bank's model, and a 'one size fits all' model will most definitely not work.

"Banks like BRAC have a different model, one which is based on



Syed Mahbubur Rahman

distribution. Our provision is high, and the NPA [non-performing asset], too, is higher than other banks. Given the NPA, higher distribution costs and large human capital, I will have to have higher levels of spread."

He said many banks, including BRAC, have brought down the deposit rates to below 12.5 percent, which is the rate fixed by the central bank.

"Our SME lending rates have also gone down," he said, while adding that the lending rate is sometimes determined by the relationship between banks and customers.

He said many blame the government rate of 13 to 13.5 percent on saving certificates for the higher deposit rates the banks are forced to offer.

"Nobody will park their money with us if we offer much lower rates

the first three months of the year.

"This does not apply to us only, but possibly for all banks."

The banks are also cautious about lending despite declining demand for funds, according to Rahman.

"We are reluctantly looking at whether the loan applicants will be able to repay the loans."

Rahman said there is no liquidity crisis in the money market, and is unlikely to come under pressure for the rest of the year.

He said the import of capital machinery has gone down by about 20 percent, which means less production and fewer new jobs.

The CEO tipped 2013 to be a challenging year for the banking sector and the economy on the whole.

"For example, the garment exporters are not facing any order shortage at the moment as their plates are full with the orders they have received much earlier. But it will be difficult for them once they have been shipped off."

He, however, is hopeful that things would get better after the scheduled elections in 2014.

He said the capital market, which, he thinks, has been bottomed-out is a matter of concern.

"We are yet to find ways to revive the market and instil confidence in the minds of the investors."

BRAC Bank is the only bank in South Asia which has been part of the Global Alliance for Banking on Values (GABV).

The alliance's 22 member banks comply with sustainable banking principles and have a shared commitment to find global solutions to

international problems -- and promote a positive, viable alternative to the current financial system.

Rahman said the alliance, which was launched in 2009, is now its infancy.

"So, it may not look too good. But then again, people are predisposed to be sceptical whenever a new initiative is launched."

"We believe in sustainable banking. It is not just transaction and lending only. We believe in relationship. We believe in how the lending is being used and whether our lending is positively impacting our borrowers and the people in the society."

"If we can cater our people and society properly definitely there will be profits."

Rahman, who has been BRAC Bank's MD since June 2010, said people are increasingly becoming aware of sustainability of their business.

"If we cannot do sustainable banking, we will fail."

Furthermore, sustainable banking practices, he says, would have averted scams like the Hall-Mark one.

"Had our bankers been more trained and aware about governance and transparency issues, we would have been able to forestall the scams. Sometimes, incidents happen because we cannot properly locate where the risk lies."

"Sustainable banking is the ultimate thing. We need to focus on people and planet, and profitability will follow suit. We will have to inculcate this culture not only at the top level, but also at the bottom level."