



SME ratings come to fore

CEO of Dun & Bradstreet Rating Agency Bangladesh tells The Daily Star how the sector could grow up further

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SMALL and medium businesses have the growth potential and can create jobs for skilled manpower and reduce poverty to a satisfactory level, an expert said.

"In recent years, the country's SME sector has progressed a lot. We have to keep up the momentum," said Tarique Afzal, chief executive officer of Dun & Bradstreet Rating Agency Bangladesh Ltd (DBRBD).

In Bangladesh, the small and medium enterprises 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 total labour force.

Their total contribution to export earnings varies from 75 percent to 80 percent, according to a recent economic census.

Afzal said financial institutions like banks should explore possibilities in all feasible segments of SME to retrieve routine revenue and better buffer from the risk of only lending to corporate enterprise and overlooking the rest.

He said commercial banks are used to working with audited financial statements from corporate borrowers, but in the SME market, these statements are often unaudited, incomplete, or missing entirely.

In the developing markets, a lack of information, training and appropriate rating of such borrowers further compounds this problem, he said, adding that Dun & Bradstreet can help banks and other financial institutions better measure and manage the risk in its small business loan portfolio.

Several local financial institutions jointly hold DBRBD, a subsidiary of Dun & Bradstreet South Asia Middle East Ltd. It has launched its SME ratings in Bangladesh following a successful pilot phase carried out in the last two quarters of 2009.

The New Jersey-based company is the first rating agency in Bangladesh that exclusively focuses on SMEs with primary objective of providing ratings that are comprehensive, transparent and reliable to facilitate greater and easier flow of credit from the banking sector to SMEs.

Afzal said there are numerous SMEs in Bangladesh that are geographically dispersed having multiple segments with multiple needs. "Due to a lack of reliable information and their comparatively limited skills on general accounting, finance, taxation and law, the businesses tend to miss the opportunity that the regulatory environment offers."

He said Dun & Bradstreet's SME ratings aim to address the challenges faced by banks in SME lending.

Afzal said corporate lending in Bangladesh is



Tarique Afzal

limited, as the number of corporate houses is small. "To turn Bangladesh into a middle-income nation, the SME sector is the only alternative which can help the country achieve the feat."

He said the central bank is well on its target to achieve goals on SME lending for the current fiscal year. "The financing is reaching to rural parts of the country. We can see improvement across the country. It is a positive step by the government."

Many banks have come forward, thanks to individual initiative of the central bank governor, he added.

There are claims that SME loans were directed to stockmarket for quick profits, and

Afzal said his rating agency could work so that real sectors get the loans.

He defended SMEs, saying: "Our entrepreneurs are honest and they repay the loans regularly. There might be some defaulters, but their number is small."

He said the banks' overhead cost has increased for operating in the rural areas where loans for SMEs have high demand. "But I think the interest rates should not go beyond the affordability of the borrowers. It should be a win-win situation. The government has a lot to do in this area."

He said, as SME banking grows, the associated risks should be addressed. "While we do the rating for the borrowers' portfolios, we find a

lot of things as risks such as financials, proper documentation, in-house accounting and processes are absent."

As a result, some banks sometimes become reluctant to extend their investment towards SME financing, said Afzal.

"If the risks are minimised, the SME growth can bring in a new era of dimension, employing a lot of people and encouraging economic growth," he said. In that case, banks will be encouraged to go for further investment in the sector.

He said borrowers have to be trained properly so that financing are used for the right purpose. "Otherwise, the borrowers will face risks and the projects will be disrupted."

He said Dun & Bradstreet has been set up with the objective to strengthen the risk assessment framework of SMEs by reducing information asymmetry, and thus enabling banks and financial institutions to enhance credit disbursal.

He said the number of small loans is higher in Bangladesh compared to medium-term loans.

"SMEs do not have documents such as financials and licence and collateral required for the corporate houses to obtain a loan. As a result, they remain untapped and neglected as small and medium entrepreneurs do not get access to bank financing, although they have expertise, skills and motivation to become big."

"We arrange things by calculating the annual sales of SMEs and manage minimum papers so that banks feel comfortable while giving loans."

Afzal said the rating is not based on assumption, rather it is research-based, helping credit risk management a lot. "Banks can depend on our information to frame their plans."

He said every bank in Bangladesh has a loan administration department, and their officials are basically bankers. "But people working for a rating agency are highly trained and skilled rating officials, and they are professionals."

Afzal said, apart from banks, the borrowers will be able to conduct rating on their own and present the rating while applying for loans.

The necessity of rating has already been felt in the West following the global financial meltdown, which has revealed that poor governance and a lack of rating and risk management are the elements responsible for the crisis. "We have to avoid such situation."

He said, due to the documentation requirement, SMEs do not move forward to get loans, while banks do not show enough enthusiasm to lend. "We have come forward to bridge the gap between borrowers and financiers."

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"Small and medium businesses have the growth potential and can create jobs for skilled manpower and reduce poverty to a satisfactory level. In recent years, the country's SME sector has progressed a lot. We have to keep up the momentum," said Tarique Afzal, chief executive officer of Dun & Bradstreet Rating Agency Bangladesh Ltd

She sets her own course in beauty care



Gazi Laily Akter Swapna

city, Swapna initially invested only Tk 10,000 from her own savings in 2000 and set up Aporupa Beauty Parlour, offering basic beauty care services. "At that time, Tk 10,000 was a big amount for me," she told The Daily Star last week.

Before setting up the parlour, she had attended a three-month training course at a local beauty parlour, paying Tk 10,000 as fees.

Doing anything beyond the boundary of the family is not easy, Swapna said. "As a young mother of a child, I had to struggle a lot. I had to face a lot of criticisms, initially from my family members and relatives."

"Even close relatives and friends tried to discourage me by saying that I was about to start a barber shop only," she said, adding that people in Sylhet generally do not endorse the idea of running a beauty parlour. Now the number of grooming parlours is growing fast.

"I was lucky that my husband and mother-in-law encouraged me," Swapna said. "My husband helps me run the business."

She started her business with a five-staff parlour. Now around 140 women and 10 men work for her, operating all the six branches of Aporupa, including one for men, in

the city. Swapna now pays Tk 60,000 in rent per month for the main branch. Her six shops serve about 400 customers everyday.

She also co-owns a gymnasium 'Ironman Fitness Club' at Kaniz Plaza.

Swapna also took part in some short courses in the UK in 2007 and 2008. Besides, she participated in courses run by the Bangladesh Women Chamber of Commerce and Industry (BWCCI). "I have learnt a lot there. All those courses now help me run the business."

The lady said such training programmes should be arranged regularly to help raise skills of women entrepreneurs, especially who run businesses at district or upazila level.

Swapna has rented some flats to accommodate her unmarried women workers. About 130 of the 150 staff are from the Garo community of Sunamganj, Chittagong Hill Tracts and Tangail.

Last month, the women chamber awarded Swapna "BWCCI-EBL Progressive Award-2011" for her contribution to creating employment through small business.

Swapna, who got married in 1993 while studying in class eight and later completed her SSC and HSC, said the award had encouraged her



A worker cuts hair of a customer at a beauty parlour of Gazi Laily Akter Swapna, extreme right, in Sylhet.

IQBAL SIDDIQUEE

IQBAL SIDDIQUEE, Sylhet

SHE got married when she was only 15, but early marriage could not stop Gazi Laily Akter Swapna from pursuing further studies and emerging as a successful entrepreneur later.

"I was determined to do something. With a middle-class family background, it was a big challenge for me to move forward," said Swapna, a successful woman entrepreneur from Sylhet.

In a room rented for Tk 5,000 a month in east Subidbazar in the

a lot.

To date, she has to face a number of challenges in managing the business. "Although paying tax is no longer a trouble for me, many

women entrepreneurs face harassment from tax officials. It's embarrassing."

A theatre activist, Swapna is listed with Bangladesh Betar (Sylhet

centre) and Bangladesh Television. She participates in radio dramas every month. She is also an active member of Natyaloke, a theatre group based in Sylhet.