



Banking on SMEs

MD FAZLUR RAHMAN

BANKS and other financial institutions have stepped up efforts to take products and services to the largely untapped small and medium entrepreneurs in the country. They are devising more products to cater to this vast segment of the economy, as it has turned out to be a profitable business arena.

Bankers say the loan recovery rate in this sector is high, thanks to the excellent repayment behaviour of the clients. The number of loan defaulters is low compared to corporate clients. Women entrepreneurs are particularly good banking clients.

Adequate and easy lending to the small and medium enterprises (SMEs) also translates into helping the country's effort to cut unemployment, create self-employment and particularly empower women entrepreneurs, said bankers.

Their observation came at the "fifth SME Fair 2011" at Bangabandhu International Conference Centre in Dhaka. Thirty-three banks and non-bank financial institutions set up stalls to display their loan products for the SMEs at the five-day event.

Bangladesh has 47 banks and 29 non-bank financial institutions. As of June, their outstanding SME loans stood at Tk 360,564 crore, which is 20.12 percent of their total loans and advances.

With Tk 3,000 crore in outstanding loans, AB Bank's financing in the SME sector now accounts for 33 percent of its total portfolio. On average, its financing is growing at 25 percent a year. In 2012, AB Bank plans to lend Tk 3,700 crore to SMEs.

"We have been financing the sector for a long time. Our efforts have increased after the central bank's special focus on the sector in recent times," said Proddut Kumar Saha, principal officer of the bank's SME banking division.

Biplob Kumar Roy, a group leader of SME banking in Bank Asia, said, "We have been running the SME operations for five years now, and we have received a huge response from the field level. Clients have liked our products."

Bankers said they were less interested in financing SMEs in the past because the sector was not in the limelight. "It became prominent when Bangladesh Bank prioritised it."

Last year, Bank Asia lent Tk 200 crore and plans to lend Tk 250 crore this year. The bank has five SME centres in Jurain, Jatrabari, Basabo, Sirajdikhan and Ramganj in Laxmipur.

Md Rokanuzzaman, client relation officer of Shahjalal Islami Bank, said his bank has a special SME cell and dedicated officers in many of its 63 branches.



PALASH KHAN

Officials of EXIM Bank brief visitors on financial products available for small and medium enterprises at the "fifth SME Fair 2011" at Bangabandhu International Conference Centre in Dhaka yesterday. The Federation of Bangladesh Chambers of Commerce and Industry is organising the five-day event.

He said his bank does not finance projects relating to tobacco, polythene and brick-kilns. "We particularly lend to the light engineering sector, boutiques, garments sector, agricultural, etc."

IFIC Bank started lending to SMEs in 2007; its total loan outstanding in the sector is now Tk 809 crore. "All banks are under pressure this year to lend more to the SMEs, thanks to the monitoring of the central bank," said Helal E Hashmi, a staff officer of the bank.

The bank is helping SMEs through clusters. It has extended financial support to flower producers in Rajshahi and Jessore. "Apart from a small number of people, the small borrowers do not have any tendency to embezzle money," said Hashmi. Dhaka Bank also charges 13 percent interest rates for loans over Tk 1 crore.

"The sector's prospect is huge in Bangladesh. We are particularly focused on women entrepreneurs," said Md Ainul Haque, a senior officer of the bank.

The bank is now devising ways to net more clients and going from door-to-door to market the products, he said. "We think entrepreneurs in rural areas have to be identified and provided with loans."

"If we can reach out to them, we will be able to create more entrepreneurs, contributing to the government's poverty

alleviation efforts," said Haque.

Dhaka Bank has four SME service centres. "Besides, we have a dedicated desk for SME clients, especially for women entrepreneurs, in every branch."

The official said the bank has financed SME clusters in Jessore, Monipuri in Sylhet and Bagerhat.

Meanwhile, Pubali Bank head office always put pressure on its branches at field levels to disburse more SME funds. "The bank has introduced a rewards system and gives cash incentives for remarkable performance in SME lending," said Manjurul Hassan, an official of the bank.

He said the bank has a special SME branch at grassroots level to cater to the SMEs. "We only started to focus on SMEs in 2009, but we have already launched four products. Our research and development division is working to devise more products."

Under its special microcredit programmes, state-run Agrani Bank gives up to Tk 50,000 for 44 sub-sectors, including handicrafts, fishing, boutiques, tailoring and pottery. It gives two percent tax rebate when borrowers repay on time.

It also gives loans worth up to Tk 1 crore to women entrepreneurs in areas such as ash plastic and synthetics, garments, food, nursery, furniture, handi-

crafts, cottage industry, agro-processing, photography, embroidery, restaurants, workshop, tailoring, beauty parlours and mobile business.

EXIM Bank officials said SME lending accounts for 80 percent of its loan portfolio. The bank now has Tk 5,000 in loans outstanding in the sector with over 11,400 clients. Its financing is growing at 12 percent a year.

"The capital market is not doing great now. There is no major project going on. The bank is less interested about consumer loans. Now SMEs have turned out to be a viable sector that can give good profit margins," said Mizanur Rahman, principal officer of the SME Investment Division of the bank.

It has three SME centres in Gazipur, Sitakunda and Keraniganj.

At the Dutch-Bangla Bank Ltd stall, Golam Mostafa, assistant vice president, said the bank is taking part in various SME fairs across the country to take its products to the people.

Bankers unanimously give credit to Bangladesh Bank Governor Dr Atiur Rahman for creating awareness of SMEs as part of his financial inclusion move.

The central bank's guidelines stipulate that a bank must at least have 20 percent of its total loan portfolio for SMEs.

Most banks have introduced special

products for women entrepreneurs, lending up to Tk 25 lakh without any collateral, at 10 percent interest, in line with BB guidelines.

Entrepreneurs say bankers are particularly cautious about scrutinising an applicant's credit-worthiness, sometimes dealing a blow to good and prospective businesses without enough documentation.

Bankers say they just look at whether the loan applicant's business is viable and legal.

"We have to maintain a minimum requirement as we deal with public money," said Saha of AB Bank.

Banks are now struggling to finance SMEs at lower interest rates, as the money market is unstable to some extent, an official said.

The bankers admitted that the amount of bad loans in the sector is very low, as the entrepreneurs are good borrowers. They say the banks are also not interested in providing large loans to corporate houses. "Now they go for syndicates to share risks," said a banker.

Bankers thanked the central bank for introducing refinancing schemes for the SMEs.

Rahman of EXIM Bank said the repayment character of SME borrowers has made the sector attractive for banks, compared to corporate clients.

LankaBangla Finance, which stands in the second position in SME lending among non-banking financial institutions, has also set up a stall at the fair.

"Of course, some risks are associated with SME lending. But we should not ignore the potential. It can tremendously help expand gross domestic product, create jobs and thus, alleviate poverty," said Sazzad Hossain Mahmud, a principal officer of LankaBangla Finance.

Some entrepreneurs and analysts have, however, said the banks are interested in lending to SMEs because of pressures from the central bank. They really do not have any focus, they added.

"Banks have to work hard to reach out to the SMEs and prove critics wrong that they only care for corporate clients," said an entrepreneur at the fair.

Sonali Bank, Bangladesh Krishi Bank, Eastern Bank, Jamuna Bank, City Bank, Prime Bank, Mutual Trust Bank, United Commercial Bank, Trust Bank, Janata Bank, Sonali Bank, Pragati Insurance, Agrani Bank, First Security Islami Bank, Mercantile Bank, Premier Bank, Bangladesh Commerce Bank, Islami Bank Bangladesh Ltd, BASIC Bank, Midas Financing and Social Islami Bank have also set up stalls at the fair.

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Paving the way for women entrepreneurship

STAR BUSINESS REPORT

BANKS should adopt a lenient outlook towards the many cash-strapped women entrepreneurs, who do not default on loans and help contribute to the economy, said the state minister for women affairs yesterday.

"Banks should look for ways to reduce the number of documents a woman entrepreneur must submit to get a loan. They have to look beyond their lending approach," Shirin Sharmin Chaudhury said.

"They can help them prepare a proposal and fill the loan documents," she said at a seminar in the city.

Chaudhury spoke at the discussion, "Women Entrepreneurs in SMEs: Bangladesh Perspective" at Bangabandhu International Conference Centre in Dhaka.

The Federation of Bangladesh Chambers of Commerce and Industry (FBCCI), the country's apex trade body, organised the "5th SME Fair 2011" to showcase various SME products.

About 136 stalls have been set up at the fair, where entrepreneurs from across the country are showcasing products, including handicrafts, household items, consumer goods, plastic items, herbal products, solar energy products, foodstuffs, mechani-

cal and electrical items.

In addition, 33 banks and non-bank financial institutions have also set up stalls to display their loan products for SMEs.

Chaudhury said the government has taken a raft of measures to economically empower women, who constitute about half of the country's total population.

"We are taking steps to establish their access to market. We believe their participation in the economy can be established through the SMEs," she said.

She also said women entrepreneurs have come a long way in using their own capacities. "Here, the government has a duty to take their efforts forward."

"We do not only want to see them as small and medium entrepreneurs. We want them to build women-owned enterprises," said the minister.

Chaudhury asked FBCCI to make recommendations on the constraints the entrepreneurs face in the areas of income taxes, value added taxes, licensing and registration processes to establish a women entrepreneur-friendly environment.

"Access to finance is a major issue, but product promotions are also important to sell products," the minister said.

Chaudhury said the problems



STAR

From left, Md Jashim Uddin, first vice-president of FBCCI; Shirin Sharmin Chaudhury, state minister for women affairs; AK Azad, president of FBCCI; Mostofa Azad Chowdhury Babu, vice-president of FBCCI; and Monowara Hakim Ali, president of Chittagong Women Chamber of Commerce and Industry, pose at a seminar at Bangabandhu International Conference Centre in Dhaka yesterday.

related to an access to finance would disappear to a large extent if the government expands its refinancing scheme, which entitles women entrepreneurs to loans worth Tk 25 lakh without any collateral and at 10 percent interest rate.

The minister also said the banks

should look at women entrepreneurs differently as they do not become loan defaulters easily. "They should expand their loan facilities liberally."

FBCCI President AK Azad said women entrepreneurs face problems such as inadequate capital and training. Many of them also do not have

modern technologies to upgrade their production methods. "With rising raw material prices and labour costs they cannot profit too much."

"Even if they produce products, they do not have market access. To whom will they sell the products? It is the responsibility of the state, the

business community and FBCCI to ensure their right to fair prices."

"We cannot ignore our responsibilities here," said the top business leader.

Azad also urged the government to recover the illegally occupied fallow lands in district levels and construct shopping centres there so that women entrepreneurs can set up shops and sell their products.

Md Jashim Uddin, first vice-president of FBCCI, said the contribution of the women of this country is huge. "There is no scope to undermine their contribution. They have a particular role behind our cottage industry and diversification of export products."

He urged the government to allocate 30 percent plots of the planned industrial zones in the country to women entrepreneurs.

Yeameen Akbory, deputy project director of Bangladesh Economic Growth Project under the commerce ministry, presented a keynote at the discussion.

Monowara Hakim Ali, president of Chittagong Women Chamber of Commerce and Industry, moderated the seminar, while Mostofa Azad Chowdhury Babu, vice-president of FBCCI, also spoke.

The five-day fair opens to visitors from 10:00am to 8:00pm.