



financing happiness

**SME Loan Banking in Bangladesh: Performance
prospect of IDLC Finance Limited on SME**



SME Loan Banking in Bangladesh: Performance prospect of IDLC Finance Limited on SME

**Submitted to,
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Letter of transmittal

December 13, 2018

To,

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Subject: Submission on Internship Report on SME Loan Banking in Bangladesh: Performance prospect of IDLC Finance Limited on SME.

Dear Sir,

With due respect, I am pleased to submit the internship report on “SME Loan Banking in Bangladesh: Performance prospect of IDLC Finance Limited on SME”. This report is an essential part for graduation and I tried my level best to work on it carefully and sincerely to make the report informative. I have prepared this report under your guidance and direct supervision. Without your support and guidance, it would not be possible for me to prepare this report.

I have put my sincere effort to give this report a presentable shape and made it as informative and precise as possible. I wholeheartedly thank you for providing me with this unique opportunity.

Sincerely yours,

Md. Zahidul Haque Robin

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BRAC Business School

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Letter of endorsement –

This to certify that Md. Zahidul Haque Robin, ID-15104180, BRAC Business School, BRAC University has done this report on “SME Loan Banking in Bangladesh: Performance prospect of IDLC Finance Limited on SME” for the purpose of completing BBA internship program. This report has been accepted by me. I wish him success in his future endeavor.

Mr. Mahmudul Haq

Associate Professor

BRAC Business School

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Above all, I convey my indebtedness to almighty Allah, the most beneficent and merciful, for giving me the strength to accomplish this internship report on “SME Loan Banking in Bangladesh: Performance prospect of IDLC Finance Limited on SME”. First, I would also like to take the opportunity to thank heartily and express my insightful gratitude towards honorable Associate Professor Mr. Mahmudul Haq, BRAC Business School, BRAC University for his immense support and guidance throughout my internship period. Without his help and guidance it was totally impossible for me to complete this internship report. Secondly, I want to thank my supervisor Mr. S.M. Ishtiaque, Manager, SME Division because without his immense support and guiding it wasn't possible for me to complete my internship at IDLC successfully. Consecutively, I would like thank all my colleagues including Miss Moriam Akter, Mr. Syed Arif Abdullah, Mr. Shahriar Kabir Khan, Miss Shrabani Kundu and Mr. Abu Mohammad Mahdin for providing me the enormous insights of today's business world and how it operates. Lastly, I want to thank BRAC University and its faculty members for their support, for them it seems quite possible for me to earn my bachelor degree successfully.

Executive Summary

SME is one of the most dynamic driving force of the economy of Bangladesh. SME business almost contributes 20% on the country's GDP which is a very good indicator of economic growth. Here in Bangladesh, most of the people starts small business of their own as a medium of livelihood. But maximum time, people don't get enough finance for doing the business. Because of that, Bangladesh Bank has come up with multi facilitated SME loan system which is very important initiative to drive the economy. Most of the banks and NBFIs are involved in SME loan business and IDLC Finance Limited, the leader of NBFIs sector is doing SME loan business for years with thousands of live clients. IDLC has multiple product for their SME clients and they are providing first class services to the SME business owners including multiple training session, "SME fair by IDLC" organizing and other help desk works. Moreover, IDLC is doing great in SME sector in last several years and leading the NBFIs sector. Thus the research was made to analyze the SME loan banking scenario in Bangladesh and more specifically, IDLC SMEs performance on SME loan. To conduct the research and making of the report, multiple secondary sources were used for data collection to analyze. In addition, for primary data, a survey was conducted on IDLC SME team. Furthermore, so many analysis were made including IDLC's total SME disbursement in last few years and their current portfolio, Non-Performing Loan ratio, growth of clients by years and others. After that, competitors' performance were analyzed and the position of other companies in terms of SME disbursement and portfolio, NPL, clients and some other factors were presented in the report. For better understanding, so many journals and reports were reviewed. Furthermore, some key findings were come out including the growth and contribution in women entrepreneurship by IDLC. Finally some recommendations were made based on the findings of the survey and other analysis. To conclude, this report has some limitations and scope of further researching is very high in future.

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IDLC Finance Limited-Financing Happiness

IDLC Finance Limited is the largest multi-product Non-Banking Financial Institution of Bangladesh with 40 branches covering 58 districts. The company offers a wide range of financial products and services to the Corporate, Retail and SME client segments. It also has a significant presence in the Bangladesh Capital Market through its subsidiaries IDLC Securities, IDLC Investments and IDLC Asset Management Limited. IDLC has been in the SME lending arena since 2006. Since then, IDLC has disbursed a total of 1294.03 Million USD to over 24,000 SMEs across Bangladesh. Each year we have delved deeper into smaller and micro segments, and hence have developed significant expertise in serving this segment.

IDLC Finance Limited was established in Bangladesh in 1985, as the country's first-ever leasing company with equity investment from IFC, Kookmin Bank of Korea, German Development Bank (DEG), the Government of Bangladesh and other investors. Over the years, IDLC has grown and diversified to cater to the ever changing market scenario. In the financial sector, IDLC has always been at the forefront of innovation. Currently, IDLC marks its presence over 20 cities, represented by 40 branches and booths employing over 1400 individuals. Since 2009, IDLC has been growing aggressively by expanding its reach across Bangladesh to cater to the mass population. As of March 2018, IDLC's total customer advances stand at over 910.6 Million USD with a customer base of over 49,000. A major driver of this growth is the SME segment, which began operations in 2006.

However, IDLC as an organization is not merely in the financing business. Its end goal is to help people achieve their dreams - the dream of owning a home or a family car, the dream of starting a business or that of expanding it, the dream of generating more employment, the dream of ensuring a safe future and many others. What really drives IDLC is not only the number of people IDLC employ, or the number of customers IDLC serve, but the number of lives IDLC has touched. While profits are important to them, IDLC also takes immense pride in being the reason for countless smiles and a world of happiness for their stakeholders.

Vision and Mission of IDLC Finance Limited:

Vision: We will be the best financial brand in the country.

Mission: We will focus on quality growth, superior customer experience and sustainable business practices.

Core Values:

- Integrity
- Customer Focus

- Equal Opportunity
- Trust and Respect
- Passion
- Simplicity
- Eco-Friendly

Strategic Objectives:

- Grow and develop our talent pool
- Fully leverage the core banking platform
- Optimize distribution points
- Grow and diversify funding sources
- Grow sales and service capabilities in the consumer division
- Sustainably grow SME portfolio
- Focus on top-tier clients in the corporate segment
- Consolidate capital market operations and enhance capabilities
- Embrace internationally accepted corporate governance and sustainable business practices

Achievements of IDLC:

Over the years IDLC has been at the forefront of the financial services sector. IDLC's performance in the market as well as cooperation and strict adherence to compliance issues have been repeatedly rewarded by several awarding bodies. For the past decade IDLC has constantly maintained their reputation not only with national bodies such as ICAB and ICMAB, but IDLC also maintain a reputed standing among institutions in the SAARC region.

SME Division of IDLC:

The SME Division is IDLC's largest business segment with a portfolio of 401.7 Million USD, a customer base over 13,500 and accounting for 43.52% of IDLC's overall portfolio. The division was officially launched in 2006 with select offerings in term loan, working capital loan and lease financing. Over the last

decade, it has evolved and expanded into a comprehensive suite of customizable products, Supported by a wide ranging distribution network with deep-rooted local expertise and a decentralized Credit Scoring model, the division has driven the growth of IDLC, with divisional portfolio growing at a CAGR of 24.83% over the last five years.

The portfolio growth has been led by a similar growth pattern in yearly disbursement and a growing customer base over the years. Last 5 years' CAGR for disbursement stands at 22% and customer growth stands at 38%.

IDLC's SME business model has proven to be a success in driving sustainable growth for IDLC, and perhaps even more importantly, it has been a partner in the success and growth of SMEs throughout Bangladesh. In recognition of its excellence in SME Financing, IDLC was awarded with "SME NBFIs of the year-2014" and "Women Entrepreneur Friendly NBFIs of the year-2014" by Bangladesh Bank and SME Foundation.

Currently, IDLC's SME lending operations is carried out from 28 branches across Bangladesh, covering 58 districts with a dedicated sales force of approximately 300 employees.

Work process of SME loan disbursement:

The SME business model of IDLC relies on four major components, a dedicated sales force, a trained and capable credit team, a centralized operations team, and a robust IT infrastructure. The process flow is as follows:

File Sourcing via Sales force – Credit Analysis by CRM – Disbursement by Central Operations

The primary target of the sales force is to visit various markets in the locality and find potential clients. They collect all relevant information from the clients including relevant documents, which is then entered into a loan origination module for processing. This module is named OCAS (Online Credit Appraisal System), and has been designed in-house by IDLC's own IT team.

Each application is processed by IDLC's credit analysts, who visit the business to analyze the viability of extending a credit facility. Based on ticket size, the file is reviewed at the relevant approval tier and decision given according to IDLC policy.

If a file has been approved, all required documents are uploaded into the OCAS system. The Central Operations team checks all documents from the system and disburses the loan amount as specified.

The centralized operations model was introduced in 2017, and IDLC has already seen significant improvement in service quality due to reduced processing time. Going forward IDLC plans to streamline this process even further by introducing tabs for the sales force.

Products of IDLC SME:

- SME Term Loan/Lease: a financing facility for short term and long term financing needs of SME entrepreneurs for the purpose of fixed asset procurement or working capital requirement.
- Seasonal Loan: a financing facility targeted towards businesses that have seasonal impact (especially in agricultural and agro processing industries) with customizable repayment options tagged with the cash flow of a business.
- IDLC Purnota: a holistic solution for women entrepreneurs that includes both financial and non-financial services.
- Abashan Loan: a unique financing facility provided for building of housing facilities for factory workers in industrial areas and around EPZs.
- Commercial Vehicle Financing: financing facility given to SME business owners to procure vehicles for business purposes.
- Revolving Short Term Loan: a lending facility for procuring working capital for an SME business.
- IDLC Udbhabon: a comprehensive financial and non-financial solution for ICT entrepreneurs to help establish and expand their business.
- Start- Up Loan: a financing facility for new entrepreneurs who are looking for their first loan.

Key terms and conditions for MSMEs:

IDLC follows guidelines of Bangladesh Bank to identify MSME enterprises. Accordingly, some key terms and conditions for availing lending from IDLC are given below. The given terms and conditions are guiding principles; they vary from product to product and are tailored to be industry/region specific.

- Business investment: for a business in manufacturing, investment must amount from BDT 10 Lac (11,981.8 USD) to BDT 75 Lac (89,863 USD) for Micro business and from BDT 75 Lac (89,863 USD) to 15 Crore (1.8 Million USD) for Small business. For a business in Service or Trading sectors, business investment must be below BDT 10 Lac (11,981.8 USD) for Micro business and from BDT 10 Lac (11,981.8 USD) to BDT 2 Crore (239,635.75 USD) for Small businesses.

- Number of employees: for businesses in manufacturing, workforce should be between 16 and 30 for Micro business and from 31 to 120 for Small Business. Again, for businesses in Trading or Service sectors, workforce should not exceed 15 for Micro businesses and should be between 16 and 50 for Small businesses.
- Age of business: in order to avail a loan from IDLC, the business must be operational for minimum two continuous years (1 year for women entrepreneurs).
- Age of applicant: the applicant and/or owner of business must be between 20 and 60 years of age.

IDLC's Non- Financial Services for SMEs:

The range of non-financial services have slowly grown over time and now includes:

- Business Facilitation Service - IDLC's Business Facilitation Services aids clients in obtaining necessary documents (Trade License, TIN Certificate, Environmental Clearance Certificate etc.) and relevant permissions required to run a business.
- Insurance coverage – IDLC has partnered with Metlife Alico to provide insurance for SME customers in case of client's disability or death. For women entrepreneurs, IDLC has partnered with Green Delta Insurance Company's "Nibedita"; for Nibedita IDLC covers the insurance premium for free up to a certain amount of insurance coverage.
- Helpline –Helpline is a specified hotline for business owners that allow SME entrepreneurs to get assistance on a wide range of business problems.
- Capacity Building Training Services- Our training sessions include lectures and interactive sessions through case studies and presentations to help participants understand the various aspects of running a business. Till now IDLC has conducted 14 training sessions in collaboration with SME Foundation, for 270 entrepreneurs, in various locations across Bangladesh. In addition, IDLC has also partnered up with BASIS to provide mentoring and coaching to ICT entrepreneurs.
- IDLC Advantage Card – A privilege card through which clients can get attractive discounts from partnered vendor outlets, ranging from healthcare solutions to lifestyle brands across Bangladesh.
- Digital Marketing Services – Through digital marketing, SME clients can get a chance to showcase and exhibit their products to the mass through various digital platforms. The services include creating and maintaining a website, Facebook page development, content management, media buying, community management as well as Marketing Strategy Development.

- Purnota Club- Purnota Club is a community for women entrepreneurs, which provides them with a unique platform where they can share their skills, ideas and experiences to form an intricate network among themselves.

Focus on Women Empowerment through Purnota:

Within SME lending, IDLC has become one of the market leaders in the women entrepreneur segment with a reputation for being women friendly. To fully tap into the women's financing market, in 2014, IDLC, collaborated with IFC to create a comprehensive solution for women entrepreneurs. The goal was to identify key traits that could help foster a women entrepreneur friendly business ecosystem. Thus, in June 2015, IDLC Purnota, a holistic solution for women entrepreneurs', was launched.

Since disbursing the first Women Entrepreneur Loan in 2008, IDLC's Women Entrepreneur Loan portfolio has grown significantly. So far IDLC has disbursed over 125.8 Million USD in loans to over 3000 customers across Bangladesh.

IDLC started the first yearly Purnota Fair in March 2016, inviting women entrepreneurs to exhibit their products. It is also proactively engaged in helping clients showcase their products through participation in various SME and women entrepreneur focused events hosted across the nation. In 2018, 4 separate fairs were hosted by IDLC, of 2 days each, in Comilla, Rangpur, Jessore and Faridpur. A total of 156 women entrepreneurs were given free stalls with sales amounting to 588,305.78 USD.

Leveraging Refinancing Opportunity:

IDLC has been providing loans at low rates to SME businesses via refinancing since 2004. Refinancing from Asian Development Bank (ADB) and Japan International Cooperation Agency (JICA) and Bangladesh Bank are being continually provided for women entrepreneurs, start-up entrepreneurs, publishers and printers, plastic manufacturing, light engineering, dairy and agricultural products and green business concept. Using these low cost funds, IDLC are serving small and micro entrepreneurs at low interest rates and contributing greatly in their financial development.

The various refinance schemes active right now are:

1. ADB Refinancing Scheme
2. Bangladesh Bank Refinancing Fund
3. Women Entrepreneur Refinancing
4. JICA Refinance Scheme
5. Green Refinancing
6. Agro Based Refinancing Fund
7. Dairy Refinancing
8. Refinancing for Publishers and Printers
9. Start – Up Refinancing

Introduction:

Rationale

SMEs are one of the major economy driving force of Bangladesh. Moreover, SMEs total contribution in country's GDP is remarkable. Banking and financial sectors are performing their best to improve their business on SME loan. As per Bangladesh Bank circular, they are offering several benefits to banks and NBFIs for doing SME banking business such as WEL, ADB and others. SMEs are doing great nowadays because they are getting enough finance from financial sector as loan and they are expanding their business to a greater extent. This sector is become very dynamic nowadays thus doing a research on this sector will be useful.

As the financial sector is doing business including banks and NBFIs, they are competing with each other by launching new loan schemes for SME business clients. As the sector is very dynamic, the loan disbursement growth is very good and it is improving in every year. In this report, the main concept of SME banking is discussed based on the Bangladesh Bank circular. Where several things have covered such as the loan eligibility criteria, the highest amount one could get on a certain criteria and others. As one of the main player of the financial market, IDLC Finance LTD is doing SME business for a long time. In this report, IDLC's disbursement on previous years, their portfolio growth, their improvements in acquiring new clients and contribution to NBFIs sector are discussed with necessary data analysis.

IDLC's position compare to other big NBFIs are also presented in the report. The comparison covers the total disbursement on current year status, the total portfolio of SME status, the contribution to NBFIs sector has also been presented in the report. For the betterment of research, primary data was collected from IDLC SME team to know more about the process and to go in depth of the research. Two interviews were taken from senior managers of IDLC for better understanding of market.

This report is made using latest data from annual reports of related organizations. Several analysis and graphs are presented in the report so that if anyone might want to go for further research he can gather information from this report. Additionally, if anyone wants to know more about challenges a SME businessman and a SME financier face while doing business, he could use this report's findings for references.

Nevertheless, the expectation from the research would be to know about the growth prospect of SME Bangladesh and to go more, growth prospect of IDLC Finance Limited in SME.

SME Banking in Bangladesh

The job of Small and Medium Enterprises (SMEs) is irreplaceable for by and large monetary advancement of a nation especially to create nations like Bangladesh. Since this division is work concentrated with short incubation period, it is equipped for expanding national pay and in addition quick business age; accomplishing Millennium Development Goals (MDGs) particularly eradication of extreme poverty and hunger, sexual orientation equity and ladies strengthening. SME segment has assumed a crucial job in monetary advancement of some prosperous nations of Asia. Our neighboring nations have too given due significance on SME. The present government has additionally put much accentuation on the advancement of SME area considering it as ‘the driving force for industrialization’.

Bangladesh Bank has already introduced several schemes and programs to flourish and expand SME Enterprises. Refinance scheme funded by Bangladesh Bank, IDA and ADB has been facilitated for the development of SME Sector. Besides, to ensure institutional financial facilities under easy conditions Bangladesh Bank has taken diverse steps; like opening of ‘Dedicated Desk’ for SME and ‘SME Service Centre’ in the banks and special facilities for the women entrepreneurs. But reality is that expected outcome has not been achieved so far in this sector.

In the back drop of recent global recession and changed circumstances, it has become essential to include all segments of people in the growth process through facilitating credit to the sectors where less attention has been given due to present market mechanism, specially, in agriculture and SME sector. Reasonably, a new department namely ‘SME and Special Programs Department’ has been established in Bangladesh Bank recently which will be solely responsible for policy formulation, facilitating fund, monitoring and development of entrepreneurship in the SME sector.

According to the National Industrial Policy 2010, the criteria of the definition of SME are as follows:

Definition of Small Enterprise:

Small Enterprise refers to the firm/business which is not a public limited company and complies the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,000-50,00,000	25
02.	Business	50,000-50,00,000	25
03.	Industrial	50,000-1,50,00,000	50

Definition of Medium Enterprise:

Medium Enterprise refers to the establishment/firm which is not a public limited company and complies the following criteria:

Serial No.	Sector	Fixed Asset other than Land and Building (Tk.)	Employed Manpower (not above)
01.	Service	50,00,000-10,00,00,000	50
02.	Business	50,00,000-10,00,00,000	50
03.	Industrial	1,50,00,000-20,00,00,000	150

A total target of SME credit worth Tk. 23,995 (Twenty three thousand nine hundred ninety five) crore has been set by the banks and financial institutions for the first time in 2010 considering SME development as one of the important development agenda of the country. According to the target, SME loan shall be disbursed to the small, medium and women entrepreneurs. In future, banks/financial institutions will send their target to the SME and Special Programs Department as well as branch offices of Bangladesh Bank fixing their target of SME loan sector wise, region wise and branch wise.

Among SME enterprises/entrepreneurs in our country, small entrepreneurs have more prospects for generating employment, reducing unemployment and achieving economic growth. Keeping this in view, at least 40% of the total disbursement target of SME credit should be reserved for small entrepreneurs and the rest will be allocated to medium entrepreneurs.

Bangladesh Bank has taken some steps and formulated a guideline for the banks & financial institutions to ensure more institutional financial facilities for women entrepreneurs in SME sector. About half of the population of Bangladesh is women. Therefore, women participation in the mainstream of economy is crucial for attaining sustainable economic growth & poverty reduction. But women participation in institutional economic sector is inadequate & the rate of women entrepreneurs is very low compared to that of male counterparts. In fact, there exist many obstacles in women participation in the mainstream of economy although the degree of integrity, devotion, creativity and expertise of women society make us surprised. Especially women participation in micro credit programs and readymade garments industry is contributing significantly to the country's industrialization. Similarly, participation of women entrepreneurs in SME sector is vital for the flourishing of Bangladesh economy.

SME banking creates a new competition among different banks and financial institutions nowadays. Banks and financial institutions are offering different SME products to customers based on their category and amount. Moreover, BRAC Bank Limited has coming up with new product like Tara and other programs for women entrepreneurs with several facilities to encourage women in entrepreneurship and from NBFBI sector IDLC has special loan for women entrepreneurs which is IDLC Purnota. These loans are generating a huge amount of economic improvement in SME sector. Some other banks such as Eastern Bank Limited and Standard Chartered Bank is also participating in SME Banking business with their attractive products for SME entrepreneurs. For this, in this competitive market, the research is done for IDLC Finance Limited's SME division and its business to know about the condition of SME disbursement on IDLC, its growth feasibility and other aspects.

Objective of the Study:

The objectives of the study has separated as broad objective and specific objective. They are given below:

Broad Objective of the study:

The broad objective for the study could be analyzing the prospect of SME Banking in Bangladesh and the growth prospect of IDLC SME.

Specific Objective of the study:

The more specific objective for the study could be:

- Looking into the SME banking condition and performance in Bangladesh
- The performance and process evaluation of IDLC Finance in SME banking
- Compare the performance of SME disbursement of other competitors in the NBFBI sector with IDLC SME
- Growth evaluation of SME banking in IDLC
- Identify the challenges of SME business people and SME financiers and possible solution for that
- To give possible recommendation to improve IDLC Finance SME loan disbursement process more effective

Scopes and Limitation of the Report:

The research is conducted on IDLC Finance Limited mainly. For better competitor analysis, LankaBangla Finance Limited and IPDC Finance Limited were selected as the main competitor in NBFBI sector. There were survey conducted on SME sales team of IDLC for knowing about the whole process of loan disbursement and their limitations and loop holes on the process. Two senior manager of IDLC SME division were interviewed to know more about the financial market banking position and possibilities of SME loan business.

One of the main limitations of the report is data collection of the report is only limited to IDLC's public presented data from annual report. Here in annual report, some crucial information are not presented for that further data analysis couldn't be made for better more accurate conclusion. Another limitation could be data collection survey was only conducted on IDLC Finance Limited SME division because of time constraint and other possibilities. There are huge potential in the NBFBI sector regarding the SME business and as well as in banking sector. There are scope of future research on analyzing the banking sector SME position an prospects in Bangladesh.

Based on the objective, from the research some question must arrive regarding the SME loan sector in Bangladesh which includes following questions:

- What is SME banking and why it is notified as one of the most dynamic economic driving force?
- How is IDLC in terms of SME loan business?
- What about the other competitors in NBFBI sector in SME business?
- How much potential IDLC has in flourishing SME loan business?
- What are the challenges SME clients and Financiers face while doing business?
- What are the outcome of SME loan?

Based on these questions the whole report is organized and several data analysis and supporting descriptions are presented on the report for coming up to a conclusion.

Literature Review:

A lot of studies have been done on the SME sector of Bangladesh. Under Bangladesh Bank regulation, state-owned commercial banks and private owned commercial banks are the target of SME loan disbursement. 40% of total loans are reserved for the small entrepreneurs because it is treated as core media of reducing unemployment. The solutions rest in a combined set of actions along the lines (Chowdhury, Azam and Islam, 2013). In the FSS 2020 work on SME development, it was presented that the Least Developed Countries (LDCs) in the east have started refocusing their attention on SMEs to enhance their role in bringing about structural changes in their economies (Mintoo, 2006).

Dr. Sharif Bhuiyan found that like many other countries, informal sector in Bangladesh does not exist in a vacuum. There are clear interconnectedness, partnership and continuity with the formal sector – maintaining a two way flow of labor, goods, finances etc. between the two sectors. In Bangladesh rapid transformation of the informal sector may not be possible, feasible and/or sustainable (Chowdhury, Azam and Islam, 2013). Policy initiatives to formalize the informal sector should therefore adopt a gradualist approach (Bhuiyan, 2007).

Dr Khondaker Golam Moazzem showed that in the Sixth Five Year Plan (6th FYP) acceleration of GDP growth (from 6.1 percent in FY 2010 to 8.0 per cent in FY2015) has been targeted through excelling the performance of industrial sector, particularly of the manufacturing sector. The growth of the manufacturing sector will have to be attained through improvement of existing enterprises and also by creating new ones (Chowdhury, Azam and Islam, 2013). However, an overwhelming number of these enterprises are micro (having less than 10 workers), small (10-49 workers) and medium (50-99 workers) enterprises, usually called MSMEs/SMEs (Moazzem, 2008).

S. M. Akterujjaman came into a conclusion that SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. Unfortunately, they are strongly restricted in accessing the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major constraint (Akterujjaman, 2010).

Iftikhar Hussain, Zeeshan Farooq and Waheed Akhtar opined that Across the South Asia, the contribution of SMEs to the overall economic growth and the GDP is high. It is estimated that SMEs contribute 50% of Bangladesh's industrial GDP and provide employment to 82% of the total industrial sector employment (Chowdhury, Azam and Islam, 2013). In Nepal, SMEs constitute more than 98% of all establishments and

contribute 63% of the value-added segment. In India, SMEs' contribution to GDP is 30 % (Hussain, Farooq, & Akhter, 2012).

Md. Shahnur Azad Chowdhury, Md Kazi Golam Azam, & Serajul Islam found that SMEs contributes significantly in poverty reduction programs and potential contribution to the overall industrial and economic growth. In the course of their study, it was found that the preferred source of taking credit or get finances for most SMEs (80 percent) was private commercial banks. The major impediments in the banking sector that have serious ramification on SMEs access to finance is the Hazardous in lengthy process (Chowdhury, Azam and Islam, 2013). 50 percent clients are not interested to go in a lengthy process. 30% clients think too much paper work is also a major impediment. It was suggested in the study that Venture Capital, Bank Syndication Scheme, HRD in Financial institutions and in Government offices, Training and Development etc. as potential tools of eliminating the constrains of SMEs financing (Chowdhury, Azam, & Islam, 2013).

Tanbir Ahmed Chowdhury and Kashfia Ahmed observed that non availability of adequate credit, complex loan granting procedure, inadequate infrastructure facilities, problems of collateral requirements, paucity of working capital, non-availability of skilled work force; poor salary structure, lack of coordination among SME related organizations, lack of appropriate marketing strategies etc. are the major hindrances to the development of the SMEs in Bangladesh. They recommended easy loan application and disbursement procedure, fix the minimum salary, adequate finance for modernization, expansion and technological advancement of SMEs etc. for the development of SMEs (Chowdhury & Ahmed, 2011).

Methodology:

This study was mainly conducted on IDLC Finance Limited, and its main competitors. From the company, senior managers of the SME division were interviewed. A survey was conducted for primary research and better understanding of the problems and challenges

- **Data Collection**

To obtain the data needed to conduct this survey, both primary and secondary sources have been used.

- Primary

The primary data was collected for the survey from IDLC SME division employees who sale SME loan. Two senior managers were interviewed for better understanding of the market.

- Secondary

A number of studies have been carried out on the problems of SME financing in Bangladesh. The main sources were journals and articles and so on. The information collected from the secondary sources is summarized in the literature review. Besides, publicly available information from newspapers, websites of the companies, Bangladesh Bank publications and annual reports of the companies have also been used.

- **Statistics**

Several graphs were made for data analysis interpretation including bar chart diagram, Pie chart, Trend line graph and others relevant graphs were used

- **Vertical analysis on spreadsheet**

Microsoft Excel was used for data analysis including vertical analysis of Balance sheet and Income statement of IDLC Finance LTD.

- **Survey questions type**

Both open ended and close ended questions were asked. Open ended questions were asked on the interview of the senior managers.

Data Analysis and Interpretation:

IDLC Finance Limited has published their 2017 annual report and they have disclosed their annual performance on different units of business consisting SME, Corporate loan and Consumer Loan. They have a positive income in 2017 which is 1582 million BDT comparing to 1496 million BDT in year 2016 with a growth of 5.72%.

For more detailed analysis, the vertical analysis of balance sheet as of December 31, 2017 and income statement for the year 2017 are given below:

Vertical Analysis of Balance Sheet as of 31 December 2017:

Initial	2013	2014	2015	2016	2017
Cash	1.48%	1.24%	1.21%	1.23%	1.15%
In hand(including foreign currencies)	0.00%	0.00%	0.00%	0.00%	0.00%
Balances with Bangladesh bank and Sonali bank (including foreign currencies)	1.48%	1.24%	1.21%	1.23%	1.15%
Balance with other banks and financial institution In Bangladesh	14.10%	12.31%	17.08%	13.08%	14.25%
Investment in shares & securities	1.56%	4.47%	4.62%	5.48%	8.28%
Government	-	0.51%	0.41%	-	-
Others	1.56%	3.96%	4.21%	5.48%	8.28%
Loans and advances/Investment	81.19%	79.88%	75.19%	78.46%	74.72%
Loans, cash credits, overdrafts/General Investments	81.19%	-	75.19%	78.46%	74.72%
LEASE Receivable	-	79.88%	-	-	-
Land, building, furniture and fixtures (including leased assets)	0.78%	0.65%	0.73%	0.82%	0.69%
Other assets	0.89%	1.45%	1.17%	0.93%	0.91%
Total assets	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Borrowings from other banks, financial institutions and agents	17.51%	15.61%	14.42%	15.83%	11.91%
Deposits and other accounts:	59.86%	62.10%	64.85%	62.15%	64.89%

Initial	2013	2014	2015	2016	2017
Term Fixed deposits/Mudaraba Term Deposits	57.63%	59.80%	62.69%	59.82%	62.55%
Other Deposits/ Mudarabba Deposits	2.23%	2.30%	2.16%	2.33%	2.34%
Other liabilities	12.00%	11.21%	10.13%	10.75%	10.03%
Total liabilities	89.37%	88.92%	89.40%	88.74%	86.83%
Shareholder's equity	10.63%	11.08%	10.60%	11.26%	13.17%
Paid up capital	3.19%	3.41%	3.42%	3.17%	3.94%
Share Premium	0.01%	0.01%	0.01%	0.00%	1.32%
Statutory Reserve	1.99%	2.09%	2.02%	2.25%	2.19%
Retained Earnings	3.75%	3.79%	3.73%	4.53%	4.62%
General Reserve	1.61%	1.70%	1.36%	1.26%	1.05%
Dividend Equalization Fund	0.09%	0.08%	0.06%	0.06%	0.05%
Minority Interest	0.00%	0.00%	0.00%	0.00%	0.00%
Total liabilities and shareholders' equity	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

From the Asset part, Balance with other banks and financial institution In Bangladesh has increased its ratio from 13.08% in 2016 to 14.25% in year 2017. Additionally, Investment in shares & securities 8.28% from 5.48% in fiscal year 2017. After that the Loans and advances/Investment percentage has decreased by 3.24% in year 2017.

In the Liability part, Borrowings from other banks, financial institutions and agent has significantly dropped to 11.91% in year 2017 from 15.83% in year 2016. Deposits and other account have increased in year 2017 by 2.74%. 64.89% of overall liability and equity has covered by this account and this is the highest percentage of deposits in last 5 years.

Total shareholder's equity has been increased to 13.17% (2017) from 11.26% (2016). Retained earnings portion has slightly increased by 0.09% in year 2017. Also the Paid up capital ratio increased by 0.77% in year 2017.

Vertical Analysis of Income Statement for the year 2017:

Initial	2013	2014	2015	2016	2017
Interest income/ Profit income	100.00%	100.00%	100.00%	100.00%	100.00%
Interest/Profit paid on deposits and borrowings	66.57%	61.13%	58.58%	55.29%	55.08%
Net interest income	33.43%	38.87%	41.42%	44.71%	44.92%
Income from investments	0.86%	0.65%	4.51%	5.69%	12.17%
Commission, exchange and brokerage	4.66%	4.83%	4.33%	5.28%	8.49%
Other operating income	5.49%	4.86%	5.34%	6.12%	5.04%
Total operating income	44.44%	49.22%	55.60%	61.80%	70.62%
Salaries, allowances and other benefits	9.33%	9.06%	10.90%	12.54%	14.56%
Rent, taxes, insurance, electricity	1.70%	1.64%	1.64%	2.58%	2.48%
Legal expenses	0.17%	0.12%	0.20%	0.22%	0.29%
Postage, stamps, telephone, telex	0.52%	0.46%	0.42%	0.41%	0.42%
Printing, stationary, advertising	1.35%	1.55%	1.04%	1.18%	1.57%
Salary and allownaces paid to Managing director	0.21%	0.18%	0.14%	0.11%	0.12%
Directors' fees	0.02%	0.02%	0.02%	0.02%	0.03%
Auditors' fees	0.01%	0.01%	0.01%	0.01%	0.02%
Depreciation, repair & maintenance expenses of FI's assets	2.57%	2.21%	2.16%	2.39%	2.17%
Other operating expense	4.15%	4.46%	3.44%	4.01%	4.61%
Total operating expenses	20.02%	19.69%	19.97%	23.47%	26.27%
Profit before provision against loans and advances	24.42%	29.52%	35.63%	38.34%	44.36%
Specific provision (Loan and Advances)	3.17%	0.61%	3.35%	2.00%	1.92%
General Provision	-0.20%	-0.74%	0.60%	0.58%	0.70%
Diminution of in value of investment	0.13%	0.24%	-0.16%	-0.72%	-
Total provision	3.10%	0.10%	3.78%	1.86%	2.62%
Profit for the year before taxation	21.32%	29.42%	31.86%	36.47%	41.74%
Current Tax	10.25%	12.91%	14.20%	15.19%	16.28%

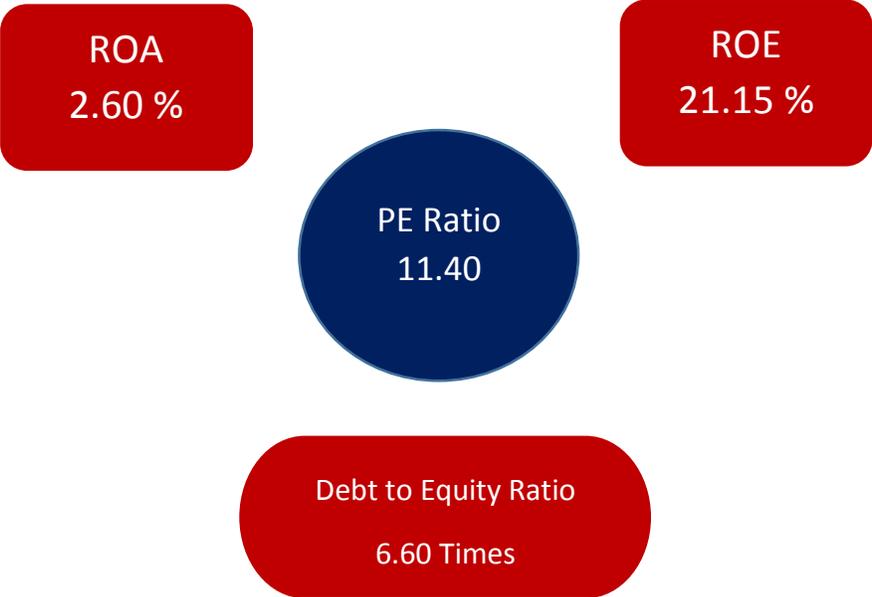
Initial	2013	2014	2015	2016	2017
Deferred tax	0.30%	-0.25%	-0.03%	-0.01%	-0.15%
Provision for tax	10.55%	12.66%	14.17%	15.18%	16.13%
Net profit after tax for the year	10.77%	16.76%	17.69%	21.30%	25.61%

From the analysis, Net interest income margin has been increased to 44.92% from 44.71% of total interest income. Income from investment has increased ratio coverage from the last year margin. Total operating income is currently 70.62% of interest income which is a huge improvement comparing to previous years. As the total operating income increased so did the operating expense which is 26.27% in year 2017. Finally Net profit for the year 2017 is 25.61% of interest income which has been increased from 21.30% (2016).

Financial Ratio:

(Momoh, 2018) When investors and analysts talk about fundamental or quantitative analysis, they are usually referring to ratio analysis. Ratio analysis involves evaluating the performance and financial health of a company by using data from the current and historical financial statements.

IDLC has very good performance over last 5 years and they are increasing their portfolio by 17.01% CAGR. To assess the financial performance, some important ratios have been calculated for better understanding of IDLC’s financial standing in the market. Important Ratio for year 2017 has given:



IDLC SME Division financial standing:

The SME Division is the largest business segment of IDLC group with a portfolio of 30,851 million BDT and it is 43.52% of IDLC's overall portfolio. From the research, it has found out that IDLC SME is growing very fast and it has focused on expanding its business all over the Bangladesh by establishing different branches in different districts of Bangladesh. SME division has also an increment on their live client and they are reaching to 13000+ live SME clients as on second quarter of 2018.

From the figure 2.1, here it has shown that the company had 22,368 million BDT in year 2015 on their portfolio. They had an increase of 24.9% during the year and the portfolio has turned into 26,054 million BDT in year 2016 and after that it has occupied a 18.4% growth on year 2017 and the portfolio of SME loan reaches to 30,851 million BDT. According to the IDLC SME sales team, they had a projection of reaching 30,000+ million BDT portfolio and eventually they did it in fiscal year 2017.

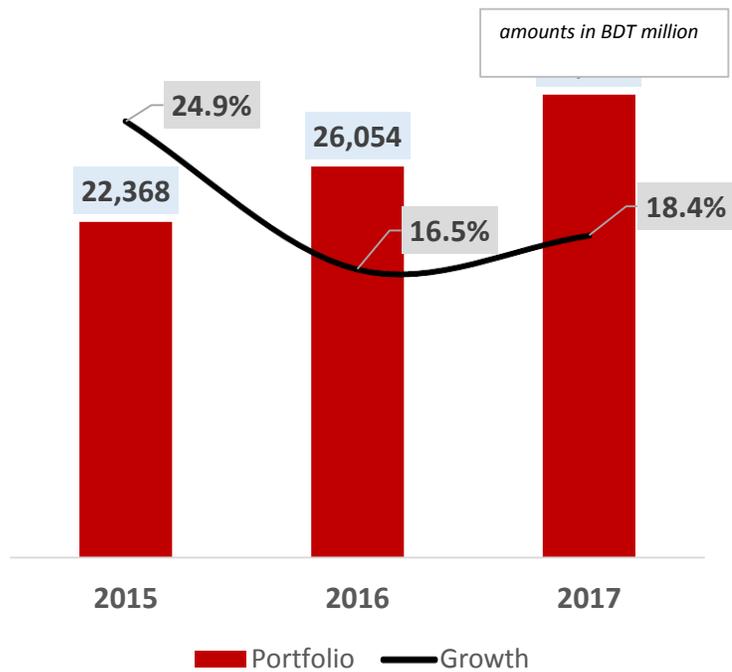


Figure: IDLC SME Portfolio

The Total loan portfolio of IDLC has also increased in year 2017 by reaching to 71,499 million BDT. Previously it was 62,217 million BDT and the addition of portfolio for the year 2017 is 9282 million over the year. The significant part we can see here is only SME has standalone loan portfolio of 30,851 million BDT which is 43.52% of the overall portfolio. In year 2016, the total loan portfolio was 62,217 million BDT and SME had a portfolio of 26,054 million BDT which was 41.88% of the overall portfolio for the year 2016. Here we can interpret that even in the loan portfolio contribution, SME has improved to 43.52% from 41.88% and among the several divisional products of IDLC, the SME division is creating more profit

for the organization as it has occupied a larger portion 43.52% of overall portfolio for the year 2017.

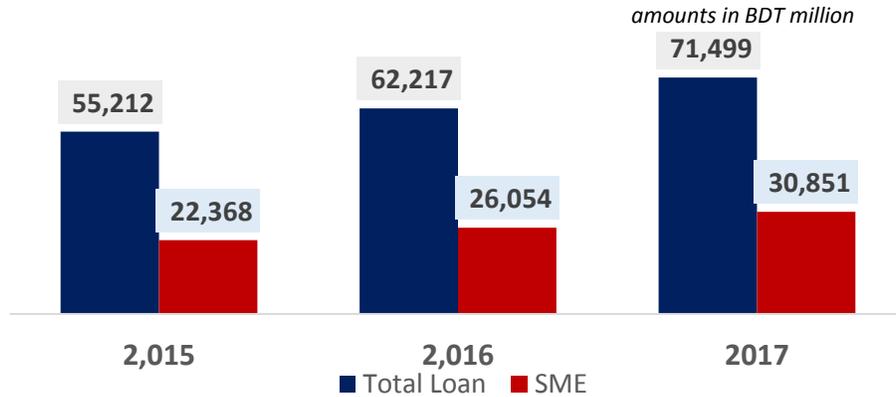


Figure: Total loan portfolio vs. SME loan portfolio

IDLC has significant improvement on its live customer of SME products. In year 2017, they have 12,582 active customers in their portfolio of SME loan. They had 10,812 live customers on the fiscal year 2016 and they had a growth of 15.9% in the year 2016 which increased to 16.40% in year 2017. Previously IDLC had 6,638 clients in year 2013 and it increased to 7,619 clients in year 2014 with a growth of 14.8%. After that in year 2015 they had 9,325 clients with a growth of 22.4% which was the highest growth of last 5 years. Finally in year 2017 they are serving 12,582 active clients which indicates they are covering larger customer base. Comparing to other NBFIs in the market, IDLC has the highest customer on their SME portfolio.

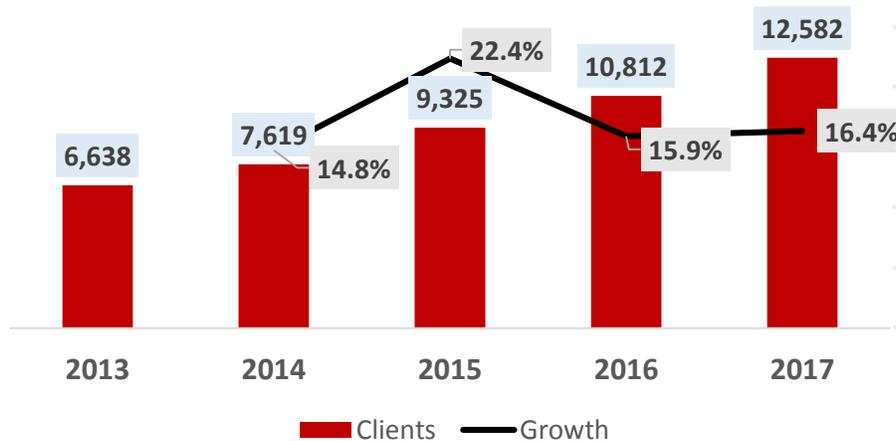


Figure: Number of active clients in SME on year 2017

According to Bangladesh Bank data, in year 2017, total Non-Banking Financial Institution sector has disbursed total 80,166 million BDT in CMSME (Cottage, Micro, Small and Medium Enterprise). This segment includes Cottage, Micro, Small and Medium enterprises and their disbursement over the years. IDLC has a significant mark up in this and IDLC has disbursed total 18,011 million BDT loan. This is the highest among the NBFIs and it has covered 22.47% of the overall disbursement by NBFIs in year 2017.

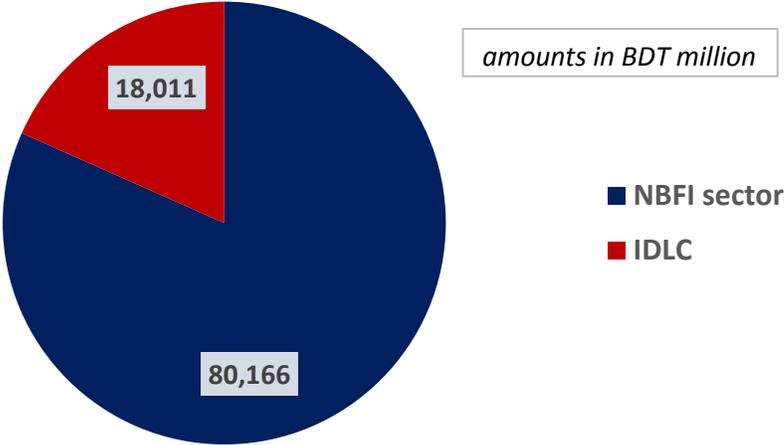


Figure: IDLC’s contribution on NBFIs sector total disbursement on year 2017

Competitors Standings:

IDLC is currently operating under Non-Banking Financial Institution (NBFI) and it is holding the #1 position in the NBFI sector by its outstanding performance over the years. Comparing to other NBFIs, IDLC has higher net profit, better ROA and ROE ratio, highest number of live accounts, more branches, better NPL and other positive aspect.

To compare the standing of IDLC, the two giants of NBFI sector, LankaBangla Finance and IPDC has been taken for comparison. Both LankaBangla Finance and IPDC Finance are operating their business in different districts in Bangladesh and both of them are doing well in terms of SME disbursement. So for better understanding, some important ratios and portfolio has been taken for the comparison part. Some of the major factors in SME will also be discussed in the later part.

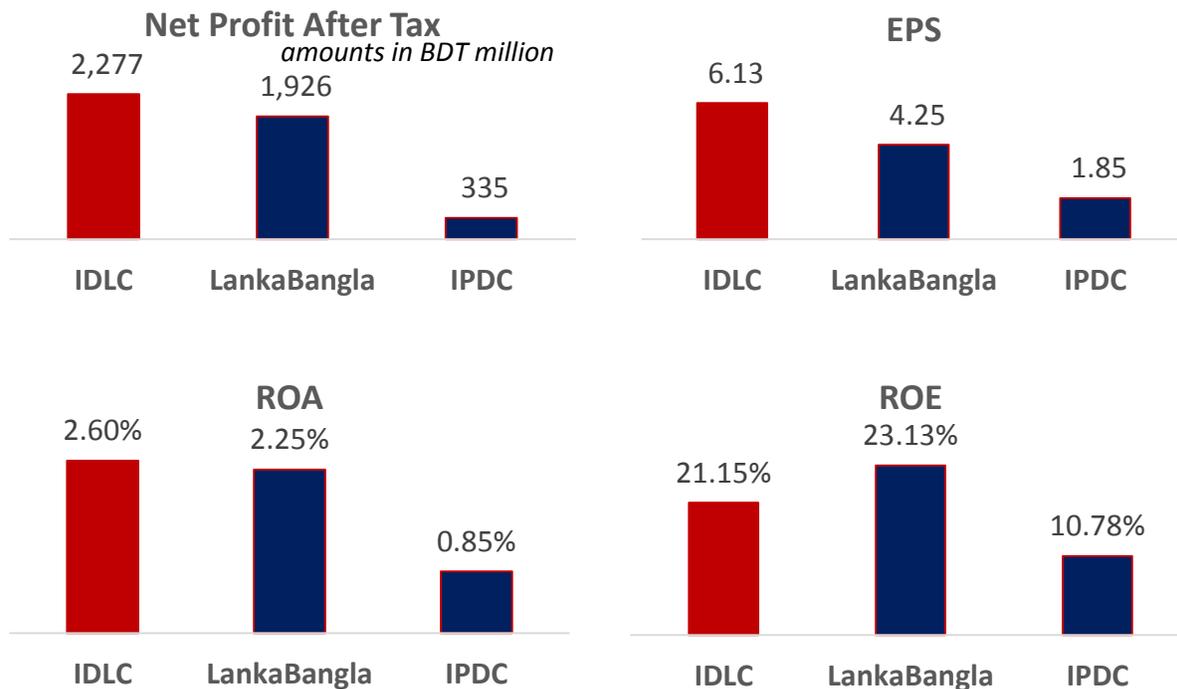


Figure: Ratios of 3 FIs

From the basic overview on financial performance of other NBFIs, it is saying that IDLC has the highest net profit among the other NBFIs on the market. IDLC has a net profit of 2,277 million BDT where its closest competitor LankaBangla has a net profit of 1,926 million BDT. The other competitor IPDC has less profit than these two giants.

EPS is also higher in IDLC comparing to other two NBFIs. In year 2017, IDLC has 6.13 EPS. It is higher than IPDC and LankaBangla Finance.

Return on Asset is a major thing for analysis a financial performance of an organization. Here it is calculated and the result shows that IDLC has the highest Return on Asset (ROA) comparing to other NBFIs in the list. IDLC has 2.60% ROA which is better than LankaBangla Finance and IPDC Finance Limited.

The highest Return on Equity Ratio is under LankaBangla's box with a ratio of 23.13%. IDLC has 21.15% ROE and the other competitor IPDC has 10.78%. It is a good indicator for shareholders of these institutions.

Another ratio could be added which is Debt to Equity Ratio. IDLC has a Debt to Equity ratio of 6.60 times. In this ratio we can notice that IDLC has a better mark up and they don't need to worry about in near future as per its overall performance.

Previously, the ratios of 3 FIs have been discussed. Now it's time for analyzing the position of NBFIs in SME. According to Bangladesh Bank database, in year 2017, total CMSME disbursement was 80,166 million BDT. Among 34 financial institutions approved by Bangladesh Bank, 3 financial institutions are taken for the comparison. All 3 financial institution has function of SME as they are providing SME products to varied range of customers all over the Bangladesh. NBFi sector is doing really good in last few years in terms of SME loan business. All of the 3 competitors have their own strategy to capture new customers. They are operating their business in multiple division around Bangladesh and they are improving their performance over the years. Some factors have been chosen for the comparative study includes SME portfolio of these 3 institutions, loan disbursement to SME customers on year 2017 and their contribution to the total disbursement to NBFi sector.

Firstly, coming to the SME portfolio of IDLC Finance, LankaBangla Finance and IPDC Finance:

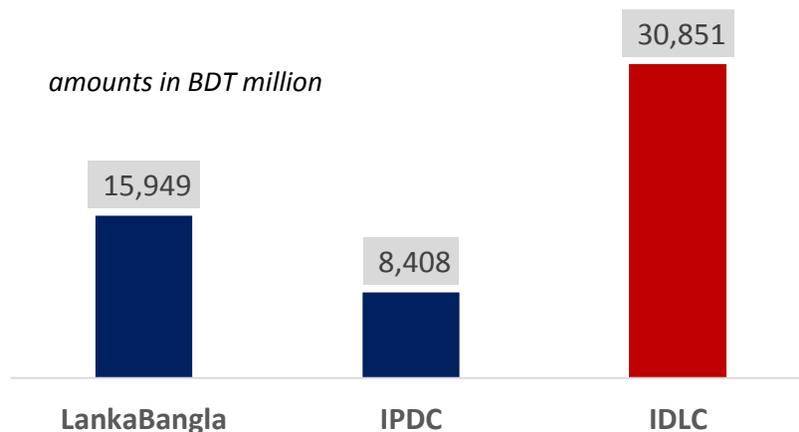


Figure: SME loan portfolio on year 2017 of FIs

Here in the graph it is clear that IDLC has the highest SME portfolio among the FIs. LankaBangla is covering a portfolio of 15,949 million BDT where IDLC has a portfolio of 30,851 million BDT. IPDC has the lowest among the other two which is 8,408 million BDT.

IDLC's SME portfolio was 26,054 million BDT back in year 2016 and its portfolio has increased to 30,851 million BDT with a growth rate of 18.4%. The portfolio of IDLC SME is almost double of its nearest competitor LankaBangla Finance and almost 3.5 times higher than IPDC's SME portfolio.

Furthermore, IDLC's SME loan portfolio has a 5 years CAGR of 24.83% which is a big achievement for IDLC as IDLC's major business portion is depends on the performance of SME division as it covers 44% of the overall loan portfolio of IDLC Finance Limited.

Secondly, 3 financial institutions had a good growth in year 2017 on their SME loan disbursement. In total IDLC, IPDC and LankaBangla has disbursed total 30,657 million BDT which is 38% of the total disbursement of NBFi sector in year 2017.

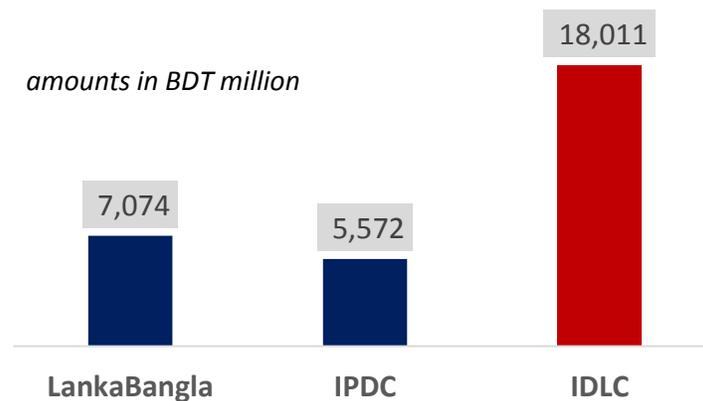


Figure: SME Loan Disbursement for the year 2017 of FIs

Here in the graph, LankaBangla has disbursed total 7,074 million BDT in SME segment. IPDC has disbursed 5,572 million BDT which is a big improvement in IPDC as they had 2836 million disbursement on year 2016. Compared to LankaBangla, IPDC and IDLC, IDLC has the highest amount of disbursement in year 2017 with a disbursement amount of 18,011 million BDT.

IDLC has disbursed almost 2.5 times higher than LankaBangla and 3 times higher than IPDC Finance in year 2017, which concludes that IDLC is more focusing on SME clients as SMEs are the major economic driving force of the country right now.

After that, IDLC, LankaBangla and IPDC are the leader of NBFi sector and they have disbursed 38% of the total loan disbursement by NBFi sectors.

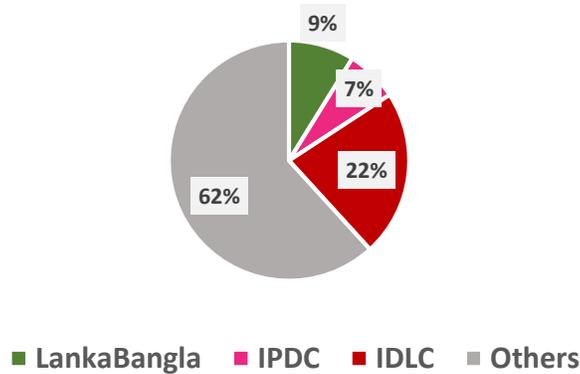


Figure: NBFi overall loan disbursement on year 2017

Non- Performing Loan:

Non- Performing loan (NPL) ratio is a big indicator of risk for banks or financial institutions. The lower the NPL ratio, the safer the bank loan is. Which means, a company with a lower NPL ratio is on safe side as its assets are not at risk and they have higher chances of better recovery of money.

IDLC Finance Limited has a NPL ratio of 2.77% in year 2017 which means 2.77% loan of the total loan portfolio is non-performing and the remaining installment can't be recovered in a regular process.

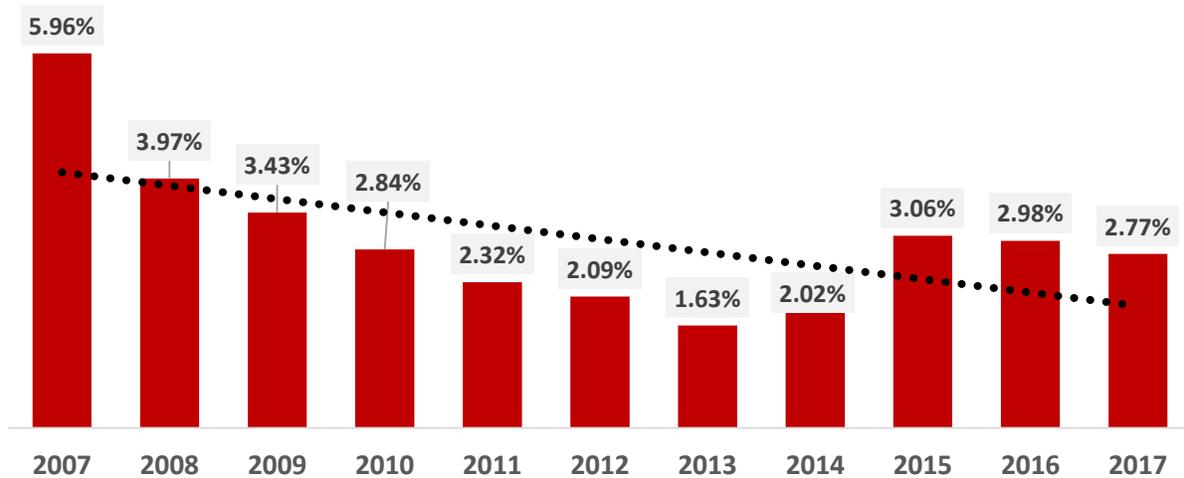


Figure: Last 11 years NPL of IDLC Finance Limited

From above graph, back in 2007 IDLC had a NPL ratio of 5.96% which was the highest NPL of last 11 years. After that the NPL had decreased up to 2014 and the NPL became 2.02% and IDLC was having the lowest NPL ratio on year 2013 which was 1.63%. After that, in year 2015, the NPL suddenly increased to 3.06% from 2.02%. After that the company had taken several steps to control the NPL and they became

successful. On immediate year 2016, they had a NPL of 2.98% and after that they reached to 2.77% in year 2017. Their portfolio is getting less risky over the last 3 years.

In spite of having a large portfolio in SME, IDLC is maintaining its NPL ratio which is in declining trend. Over the last 11 years the trend line indicates that NPL is dropping. Which is a very positive sign for IDLC Finance as they are capable of handling such big portfolio in SME.

Considering the last few years, IDLC has a negative correlation among loan portfolio and NPL as it is increasing its portfolio but decreasing the NPL ratio. Usually those banks who handles a large portfolio has higher NPL but for IDLC, it's not a problem to handle a large portfolio of loans. It also indicates the CRM team is stronger in IDLC.

In addition, in terms of competition among FIs, IDLC has a good score in NPL ratio. The comparison among FI's NPL ratio is given below:

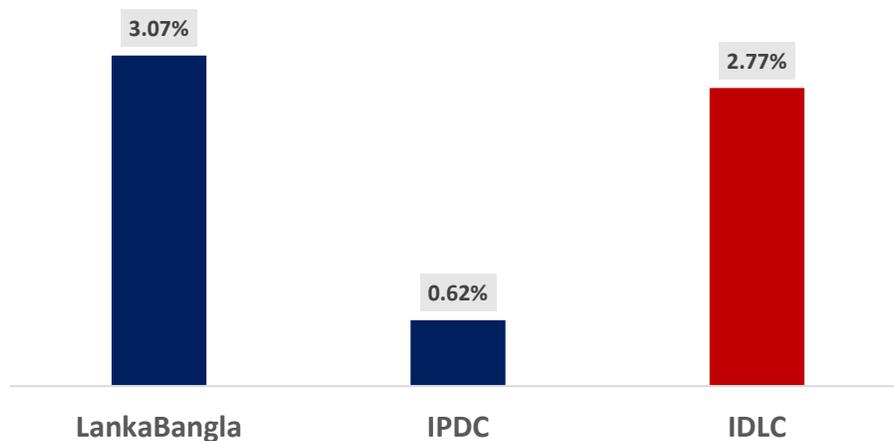


Figure: NPL of FIs

Among the 3 competitors, LankaBangla's NPL is the highest with a ratio of 3.07%. Secondly, IDLC has a NPL ratio of 2.77%. Among the 3 competitors, IPDC has the lowest NPL which is a marvelous NPL of 0.62%. Although IPDC has very less portfolio than IDLC and LankaBangla, but their NPL is very good as compared to other FIs.

Geographic Coverage:

Among the NBFIs, IDLC has the highest district coverage comparing to other FIs. Currently IDLC SME is operating in 28 branches in different part of Bangladesh. The close competitor LankaBangla Finance is covering 24 districts and IPDC is covering 12 Branches all over the Bangladesh. IDLC is planning to open

6 new branches within year 2019. So eventually, IDLC will cover 34 branches all over the Bangladesh with SME loan operation facility.

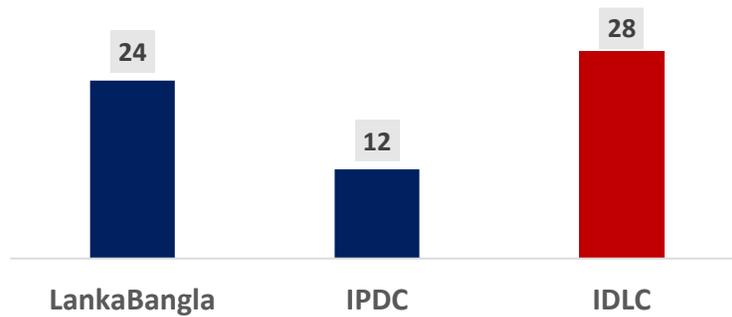


Figure: Number of Branches of FIs

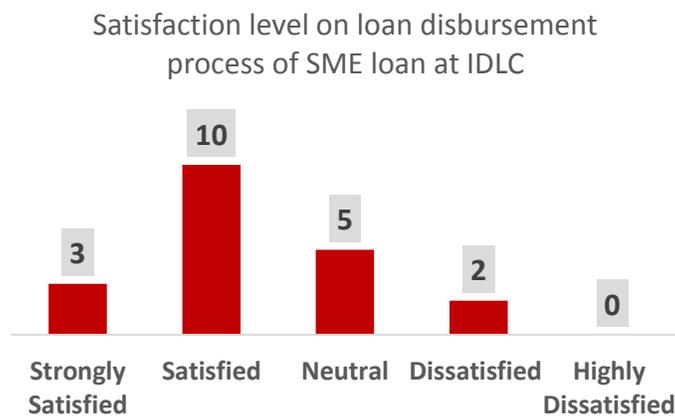
Survey Data Analysis:

To get better knowledge regarding the industry and IDLC, there was a survey which was conducted on SME employees of IDLC Finance Limited. The respondents are working under SME division and more precisely Small Enterprise Financing (SEF) and Medium Enterprise financing (MEF) department. They have experience of working in sales and they have better knowledge about the customer of SME.

Total Respondent of the survey are 20 respondents. Among them 6 of them working under MEF department and 14 respondents are working under SEF department.

For better understanding of challenges, 2 Senior Manager of SME division were interviewed. Their experience and suggestions were very effective for the research.

Question 1: Are you satisfied with the loan disbursement process of SME loan at IDLC?



In this question, 50% respondents agreed that they are satisfied. 3 respondents shared that they are strongly satisfied. 25% respondents supported for Neutral view point and 10% respondents are not satisfied with the current process of disbursement.

By asking them about their dissatisfaction, they had different opinion. Such as, one employee claimed that they have to wait a long time for the verification of the paper. In the meantime customer have to wait and they continuously call them for their loan disbursement. The employee suggested that they could minimize some of the paper work which will save much time and the disbursement will be faster and this will create maximum customer satisfaction and retention.

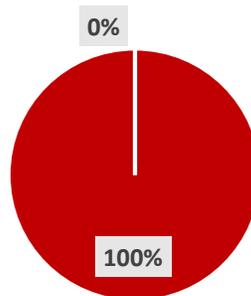
Another employee claimed that sometimes for a single paper approval they had to wait for 2-3 working days. For that reason they couldn't progress on their disbursement process work and the disbursement will be delayed.

5 employees were neutral in their view point. They think the process is neither so good not so bad.

Maximum number of employees believes that IDLC is following better process than other banks or NBFI. They believe they are disbursing a loan faster than any other competitor in the market. They added they are also maintain very good relationship with their customers.

Question 2: Do you think loan disbursement process could be made even better than current?

Loan Disbursement Process
could be made Better



■ Yes ■ No

Second, another question was asked whether they believe loan disbursement process could be made better than current procedure. In this question, 100% respondents agreed that the current process could be made better if there are some possible changes made.

Question 3: What is most challenging for you while dealing with a client?

In this question, different employees answered different answer. Mainly they have pointed out some of the important points such as negotiation, maintain patience, serving the best they could, tackling the market completion and so on.

Maximum number of employee answered that negotiation of interest is the major challenge while convincing a customer. According to the view point of customer, they want less interest rate and flexible terms for repayment of the loan. In that case the Relationship Manager has to maintain proper relationship at the same time they have to keep in mind the business.



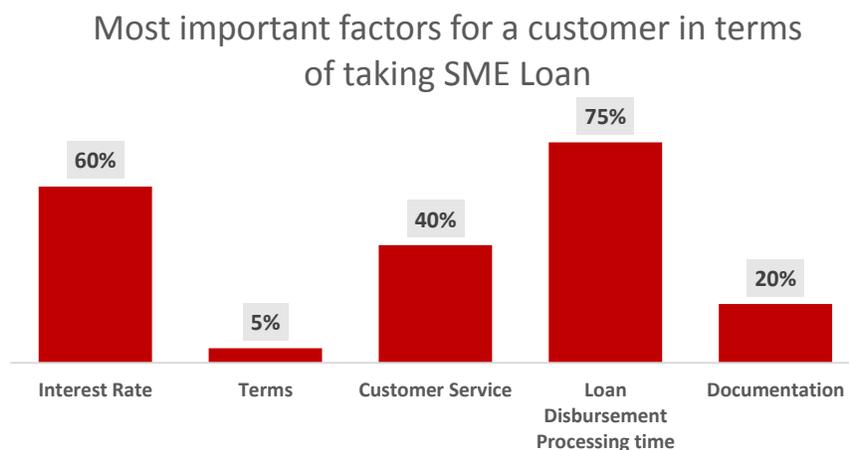
In the negotiation part, customer claims that other banks are asking less interest rather than IDLC and why they should go for IDLC rather than other banks. This is the most challenging part for a relationship manager or sales man as they have to convince the customer for taking the loan.

Most of the employees also voted for first class service as a major challenge. They believe that customer always wants better behavior and service so that they need to fill up all their needs and expectations while making a business. Usually big clients don't always seek for interest rate rather they want better service and relationship. So the relationship manager has to understand a customer type and have to serve them according to their need.

Some employees also voted for Document collection process. Sometimes it becomes really difficult to collect all the paper from the customer within a minimal time period. But almost every time, customers want their loan amount urgently. So they don't co-operate to documentation of necessary papers. Almost 50% of customers don't know much about a loan disbursement process thus they become confuse while documentation collection process. So the relationship manager has to give them proper guideline to collect all the supporting documents needed for the loan disbursement process completion.

Question 4: From customer view point, which one is the most important factor for a customer in terms of taking SME loan?

This is a question which will be answered based on the customer perspective. Respondents were suggested to answer based on customer preference as the limitation of the survey is there was no survey conducted on SME clients of IDLC as company wouldn't allow their customers address to be exposed and visit them.



Maximum number of respondents voted for loan disbursement processing time and interest rate option. Most of the respondents believe that customers ask for loan when they are in need of urgent money for business purpose. So they want faster loan disbursement rather than other factors. Almost 75% of the respondents voted for that.

Another important factor was interest rate. Almost 60% respondents said that customers are very concern about interest rate of the loan. If the interest rate is higher customer starts to loss his interest to take loan from IDLC or any other NBFI.

Thirdly, 40% respondents believes that customer service is very important. This includes relationship among the RM and client. They shared most of the time customer is very much concern about the customer service rather than any other factor.

20% respondent go for documentation part. As it is a long task to perform for a loan disbursement. As the company needs to follow all the instruction of Bangladesh Bank for a SME loan disbursement, the company needs to collect all the supporting documents for a loan disbursement.

Only 1 respondent voted for terms as an important factor. He/She believes that from customer perspective, terms of loan is an important issue.

Question 5: What possible changes you suggest for the betterment of loan disbursement process at IDLC?

This is an open ended question asked to all the respondents for suggestion they would like to give for the betterment of loan disbursement process. Different suggestions have arrived. They are given below:

Pre Sanction could be introduced where good clients with better understanding of business and better records will get approval based on their business wealth. This will be really effective to gain good clients and retain them as they will have to face less processing time.

Credit Administration (CAD) process flow could get faster than present. One of the major time period for disbursement is needed to conduct operational processing by CAD. To lessen the time of disbursement, CAD process flow could make faster by decreasing workload by distributing the work. This will save some time of the overall disbursement processing.

Risk based documentation time could be changed. Such as for 15 lakh taka loan took the same processing time like a 1 crore loan. This creates more processing work and eventually it costs much time of CAD.

Client engagement program could be introduced in different occasions. So that clients could have better relationship among them and this also creates better networking among the clients.

One respondent suggested for less conservative approach of credit team.

These are the some of the common suggestion provided by the respondents.

Key Findings:

SME Banking Growth and IDLC:

According to Bangladesh Bank CMSME disbursement report 2017, total 1,617,773 million BDT was disbursed in year 2017. Previously in year 2016 the total disbursement by financial sector was 1,419,353 million BDT. This is a big growth of CMSME sector as almost 200,000 million BDT improvement is a big point of success. As we know SME segment is one of the most dynamic segment for the Bangladesh economic advantage. We can see from the report that on a single year SME segment's disbursement improved in such a good number and total loan number has also improved significantly. This indicates that more businessmen are looking for SME loan and they know about it. Previously, maximum number of people don't know about SME loan and its extra features for businessmen. Most of the business people had knowledge conventional loan and their difficulties to get that's why they didn't feel interested to take loan and expand their existing business but nowadays they are becoming interested. This becomes possible because more banks and NBFIs are involved in SME business and Bangladesh Bank gave multiple facilities for loan takers such as unsecured, cash security and mortgage loan and their credit limit. So the SME banking in Bangladesh is going to be the next dynamic source of economic empowerment and growth of the GDP.

Banking sector is improving in SME as they have disbursed total 1,537,607 million BDT in year 2017 which was previously 1,361,762 million BDT. They have improved 12.91% during the year 2017 on their loan disbursement to SME clients. The NBFIs sector has also improved from 57,591 million BDT in year 2016 to 80,166 million BDT in year 2017. There was 39.20% improvement in the loan disbursement portfolio of NBFIs which is a major sign that NBFIs are giving much importance to their SME business as they have identified the significance of SME in economic growth of Bangladesh.

IDLC is improving its portfolio of SME as they have a constant improvement in their disbursement on SME business. They have 18.4% growth on their SME portfolio during the year 2017. They had a growth of 16.5% in year 2016 and its pretty constant positive growth. IDLC has a higher portfolio comparing to other giants in NBFIs sector such as LankaBangla Finance and IPDC Finance. IDLC has a portfolio of SME which is around 30,851 million BDT and it is 2 times higher than LankaBangla and almost 3.5 times higher than IPDC. IDLC is leading the NBFIs sector with its higher disbursement and portfolio and its constant positive growth in portfolio. IDLC has a great potential of improving the portfolio as they are investing on their product development and invention of new products will broaden the market of IDLC. IDLC has 28 branches currently and they are planning to establish new branches in more 6 districts which will cover a

larger segment of market next year and it will help them to improve their portfolio and compete with the NBFIs as well as Banks.

Empowering Women Entrepreneurship:

IDLC is empowering women entrepreneurs by providing a special product “Purnota”. IDLC has discovered the potential of women in business and come up with so many special features for them which they don’t provide for regular SME loan. Purnota is only for women entrepreneurs and it is refinanced by the Bangladesh Bank. Maximum limit for this loan is 50 lakh BDT and the most attractive feature of IDLC Purnota is women can take up to 25 lakh BDT without any mortgage or cash security or any other security and the interest rate for the loan is 9% which is way lower than any other SME loan at IDLC.

IDLC provides special training to women entrepreneur to perform business more efficiently and more economically. IDLC organizes Purnota fair for women entrepreneurs in last 3 consecutive years. Last Purnota fair was organized in March, 2018 where a total of 157 stalls were given and the whole financing of the fair arranged by IDLC. This fair was organized to attract female entrepreneurs in business. IDLC organizes training program for the women entrepreneurs on different months of the year. They provide training on-

- Business Accounting
- Capital Management
- Product selling and marketing
- Employee management
- Manufacturing management
- Product development
- Specific business training

These training are given so that women entrepreneurs can do business in an efficient way.

IDLC Purnota provides SME Advantage Card to its clients. Being a SME Advantage Card holder a woman entrepreneur can get so many facilities such as discount on different retail shops.

IDLC Purnota is improving its portfolio and at the same time it is encouraging women entrepreneurs in Bangladesh by financing in their business with very relaxed restrictions.

Non- Performing Loan and Total Disbursement of IDLC:

NPL is a very important parameter to calculate a company's performance on loan recovery. NPL indicates the credit risk exposure of the loan. IDLC has a very good NPL ratio comparing to its huge portfolio of loan. Currently IDLC has a NPL ratio of 2.77% in year 2017 which was previously 2.98% in year 2016. The loan portfolio is now standing on 71,499 million BDT which was 62,217 million BDT on last year 2016. Though their portfolio has touched the huge markup of 70,000+ million BDT but they were quiet concern about their NPL which is negatively correlated to their portfolio growth. So we can say, IDLC is growing very fast and they are very much concern about their NPL ratio.

Findings from Survey and Interview of Senior Managers:

From the survey, it is clear that most of the employees of IDLC are satisfied on their loan disbursement process. 13 out of 20 respondents are satisfied on their full process flow but they have some suggestions regarding the process such as Credit Administration (CAD) process flow speed up, processing fee decreasing, less conservative approach of credit team and some other suggestions. They believe if IDLC could continue this speed of growing, very soon they will touch the banking sectors disbursement.

From the interview of senior managers of IDLC, some important issues have been come up. Mr. Ahsan Ullah, Senior Manager of SME division believes that SME is currently playing a very important role in the country's economy. He shared that if loan is given to a big company, it will be beneficial to the company and the stakeholders of that company. But if the loan is given to SME, they will expand their business and he has many stakeholders. So the benefit is distributing among his family and customers as well and the whole economy is dependent on SME. So it will eventually improve the country's GDP, Per Capita Income and the banking industry. Mr. Ahsan added that currently IDLC is following the standard process flow for disbursement of a loan and they are controlling it very effectively. That's the company's NPL is decreasing day by day and the portfolio is increasing at a very higher rate. Mr. Ahsan suggests that if Bangladesh Bank create more opportunity like refinancing scheme just like IDLC Purnota and provide special opportunity to banks and NBFIs, then it will be very helpful for the banking industry.

Mr. Ahsan Ullah pointed negotiation of interest rate as a major challenge of convincing a client. He believes that the first prior thing to a customer is the interest rate. If the interest rate is higher than it will be very difficult for them to convince a client. He also added, loan disbursement processing time is another major factor to customer as most of the time customer needs loan for an urgent purpose. So if the process take so much time, it will not be beneficial to them. So he believes if it is possible to decrease the processing time

it will generate more customer and the disbursement will be better. Furthermore he said IDLC is working on it and they are trying their best to come up with a solution of it.

Mr. Kabir Hossain, Senior Manager of SME division shared his thoughts about the NBFIs sector and SME banking in NBFIs. He believes SME banking is the main sales driving force of IDLC as it covers almost 44% of the overall loan portfolio of IDLC. He shared that SME banking is doing very well in Bangladesh and Bangladesh Bank is helping to improve the environment of SME.

Mr. Kabir also added that IDLC is coming up with new SME products within next year and their products will be very attractive to the customers of different geographic segment of Bangladesh. IDLC is holding the number 1 position in the NBFIs sector and they are improving their portfolio in such a way that they will compete with big banks like BRAC Bank LTD very soon.

Mr. Kabir pointed out interest rate as a major factor and challenge for the banking industry. He believes if the interest rate continues to its trend line in this way then it would be very tough banking environment in upcoming years. To capture customers they need to control the interest rate first as he believes interest rate is the first factor of choosing a loan from a customer point of view.

From the survey part, there are few problems identified:

- Interest Rate is higher for SME loan.
- Loan Disbursement processing time is very long.
- NBFIs are taking processing fee of 1% for a loan disbursement where banks are not taking any processing fee for loan.
- Credit team's approach is conservative.

These are some of the major problems which are figured out from the survey conducted on employees of IDLC SME division. Employees shared their view on the loan processing to disbursement path way and their problems and prospects.

Challenges for IDLC in SME Banking:

There are so many challenges for IDLC and they are given below:

Increasing Competition: More financial institutions are entering the SME segment, while existing players are increasing their focus and revising their business models. Banks are providing more facilities such as no processing fee and other less documentation fees. Thus the completion is increasing.

Regulatory Status: Limitations associated with IDLC's licensing as an NBFIs means that it cannot offer current accounts, foreign exchange or trade finance services. This complicates the provision of some products, such as short term credit lines, and other services which can be important for small businesses. The availability of these products at banks make them more convenient for SME customers as they are getting all of the services under one umbrella. The regulatory status also impacts the type and cost of funding resources which the institution can access.

Strategic Goal: The long term strategic goal of IDLC's SME division is to establish technology based SME financing to serve mass SME's in quickest time. The biggest challenge for this goal will be the payment system. So as long as IDLC cannot come up with a faster and efficient payment system, achieving the strategic goal will be difficult.

Small Business Banking Strategy: While management leads strategic development efforts and short term budgeting processes to support the continued growth of the business, the institution has yet to document a holistic, comprehensive and detailed mid to long term strategic development plan to drive its small business banking activity.

Attracting and Retaining Staff: Management recognizes the value of its small business banking team, as well as the challenge to attract qualified staff and retaining existing employees in an increasingly competitive market for such expertise. Currently, SME division is understaffed with a total of 320 relationship managers including business team leaders.

Customer Service: The branches of IDLC are not yet well-equipped with customer service management for the SME clients. Customers often stay unattended when they come to the branches.

Challenges for SMEs and SME Financiers:

The following challenges prevail for the SMEs operating in Bangladesh:

Lack of Start-up Financing: Most banks and financial institutions are reluctant to provide credit to small start-ups. Most new businesses still rely on the savings of the founders or borrowings from friends and family of the founders.

High Interest Rate: Though the prevailing market interest rates are low (below 10%), for small startup businesses the interest rate charged is still very high (between 18-20%).

Stringent Collateral and Guarantee Required: Most banks in Bangladesh still follow a collateral based system in case of extending credit to SMEs. In addition, when a small enterprise applies for loan, third party guarantee is required from other existing business. In case the loan defaults, the guarantor becomes responsible for the payment of installments and principal amount. Besides, this loan shows up in the guarantor's CIB report, thus making it difficult for SMEs to find guarantors and consequently avail loans.

The following challenges prevail for the SME financiers operating in Bangladesh:

No Experience in Book-keeping and Inadequate Documentation: The SMEs operating in our country do not follow formal book-keeping which makes it difficult for financiers to assess these companies. In addition, these businesses do not have documents such as Trade License, Tax Identification Number (TIN) Certificate and so on which are required to apply for loans.

Lack of Knowledge about Suppliers and Market: The owners of startups usually have very little knowledge about markets or suppliers. Without this knowledge, entrepreneurs are unable to identify the challenges they are facing or the risks associated with the type of business they are conducting; thus making them vulnerable to incur losses.

Unstructured Business Planning and Over-expansion: Due to being a novice in running business, most entrepreneurs cannot strategize properly for their businesses to run for a foreseeable future. In most cases, the entrepreneurs are not well-educated either which adds to the problem. Along with this, entrepreneurs often misinterpret seasonal revenue streams as eternal and therefore, over-expand consequently tying up cash in idle machineries.

Poor-Credit Granting Practices: As competition in SME banking has risen over time, often enough financiers grant credit to SMEs without carrying out proper credit rating. For organizations which carry out thorough credit rating, this is a major problem as prospective clients are taken over by competitors.

SME Banking is expensive: As already mentioned earlier, most banks do not follow the vertical or concentrated banking for the different business disciplines. The sales personnel of a particular bank try to source clients for all the financial products the institution offers. Concentrating on a particular discipline and especially SME banking is costly. This is because a lot of manpower is needed to handle clients, source and in most cases make formal reports for the prospective clients and thereby build a strong portfolio. As a result most banks do not focus on SME Banking like institutions such as IDLC or BRAC Bank do.

Success Story of SME financed by IDLC:

IDLC is doing business in SME segment for years and they have become a part of many successful business stories. Here are some of the success stories where IDLC financed them with SME loan on different time of their whole business period. These stories contains the struggle of SME business people and their struggle and enthusiasm for business by overcoming hardship.

- **Mr. Md. Anowar Hossain (Proprietor of Jaker Dairy Firm)**

Man for mankind!

Born at Narayanganj, Anowar Hossain came to Dhaka in 1967 with dreams of becoming a successful businessman. He started trading rice at Adabor Krishi Market. Time passed by and he was earning fortune in business. During the course of time, he married and became father of a son.

One fine morning, he bought 1 liter of milk for his son from Mohammadpur. While boiling the milk, his wife observed the milk dried out too early as the milk contained mostly water. She informed Mr. Anowar and the incident and he was awestruck at the incident. He realized not only his son, but many people in the vicinity were victim of adulteration.

The incident moved him and he decided to start a dairy firm, leaving his rice trading business which was running quite well. He started “Jaker Dairy Firm” by purchasing 5 Frisian cows. Initially, he started the business on a rented premise located at Savar. Later in 2002, he shifted to Mohammadpur and purchased 1 bigha of land. Currently, Mr. Anowar owns over 500 large cows of different breeds like Australian Frizian,

Holstein etc. At present, the firm is government's listed dairy firm according to Bangladesh Livestock Department. The firm has 380 milk cows, 120 large ones, which would be producing milk down the line and more than 100 calves.

Mr. Anower had a vision of supplying pure milk among people of his territory & has been doing the same since the start of Jaker Dairy Firm. Besides milk, the products offering encompasses a wide variety of milk products: Curd (*Doi*), Yougurt-shake (*Matha*) and the like. No tonly that, he created employment for a total of 250 people who are contributing directly in total production in economy.

- **Md Masud Rana (Managing Director of Guardian Healthcare Ltd.)**

The bigger you dream, the bigger you achieve

This is a story of Md. Masud Rana who owns a pharmaceutical company which produces medicine for both humans and animals.

Prior to starting out the business, Masud has been involved in similar line of businesses for more than 12 years. He graduated from RUET as a Mechanical Engineer. After graduation, he joined KAFCO and worked there for about 10 years. After that, he worked in renowned pharmaceutical companies like, Opsonin, Syngenta & Eskayef in different capacities.

However, his passion of being an entrepreneur, was not being addressed. Driven by his entrepreneurship appetite, he left his job at the capacity of Technical Director in Opsonin Pharma. Mr. Rana, along with his spouse, purchased a pharmaceutical company in 2011 and named it Guardian Healthcare Ltd. Initially, the business was totally run under their supervision. With course of time and growth of the company, L.R Global Bangladesh Mutual Fund and some other Institutions like DH, Green Delta Mutual Fund, AIBL First Islami Mutual Fund, MBL First Mutual Fund, made investments and became shareholders of Guardian Healthcare Ltd. In 2016, Mr. Rana updated his shareholding proposition by closing all institution shares. At present, he owns 47% shareholding, whereas his wife holds 52%.

Guardian Healthcare Ltd. manufactures wide array of human medicines as well as veterinary medicines. A whole lot of 52 Human and Veterinary medicine items are manufactured. The manufacturing unit gets

approval for drug manufacturing from DGDA, Bangladesh. The business unit of veterinary healthcare is designated as “Vetlife” under the license and management of Guardian Healthcare Ltd. In the last one year, a total of BDT 1,032,650 worth of goods have been imported by Guardian Healthcare Ltd, which were used to produce medicine items. Other than Guardian, Mr. Rana has three sister concerns named Mccoy, Winstar Pharmaceuticals Ltd. and Crest Projects & Professionals.

- **Mrs. Kabita Begum (Proprietor of K.B. International)**

Breaking the stereotype

Mrs. Kabita Begum was just an ordinary home-maker 20 years ago, but now, she is also a successful business woman. The journey was not silk-smooth for her, rather it was a rocky road. In 1998, she travelled Hong Kong & China as a pleasure trip. While wandering the streets of China and visiting the shops, she discerned that security appliances were not easy to find in Bangladesh. Kabita decided to utilize the opportunity and start a business of security appliance after going back to Bangladesh.

She started trading security appliances on a rented premise under the banner of "K.B. International" at Electric Plaza, Palton in 2003. K.B. International is an importer and wholesaler of security appliances such as CCTV camera, Digital Video Capture Card, Finger print Machine, Access Control, Stand Alone DVR, Metal Detector, Scanner, Archway Gate, etc. Usually, the products are imported from China, Taiwan and South Korea using her own IRC. Wholesalers of Baitul Mokarram, Paltan and Elephant Road visit the outlet regularly. Besides this, the shop provides sales and service to various offices and showrooms at Mohakhali, Rampura, Mogbazar, Paltan, Mirpur, Malibagh, Green Road of Dhaka and Chittagong. In addition to the outlet, she also maintains three possession-owned go-downs.

- **Asir Ahmed (Proprietor: Delhi Darbar)**

Mr. Asir Ahmed started fast food business in a rented shop at Bashundhara City Shopping Complex, Dhaka and named it "Delhi Darbar" in 2006. Prior to that, he worked in South Korea for 4 years (1991-1995). Later, in 1996, he went to Japan where he stayed for 9 years (1996 -2004) and worked in the capacity of a welder. Besides that, he used to work in a restaurant in his spare time, which was owned by him and few of his friends. His dream of owning his own food outlet derives from that experience.

Asir returned to Bangladesh in 2004. In November 2004, he started a jewellery trading concern under the banner of 'Fancy Fair' which is now dissolved. Afterwards in 2006, he started a fast food shop at ground floor of Bashundhara City under the banner of 'Fancy Food' which is now operated by his brother. Subsequently in 2008, Asir started the Delhi Darbar-1 by renting two (2) shops at the present location. In November 2010, he started another outlet under the banner of Delhi Darbar-2. In June 2012, he started another shop in the name of Delhi Sea Food. It caters mostly South Indian items i.e. chicken masala, dosa, chola barota, dohi bora, papri chat, rajlokhi etc. In order to attract food-lovers, it also provides Chinese, Thai, regular fast food items and flavored shakes. He created employment opportunities for a total of 120 people.

These are some of the success story of IDLC Finance Limited SME loan. IDLC feels greatest honor to be a part of their business growing time.

Recommendations:

While doing the research analysis on IDLC SME, few problems came across and for the betterment of IDLC SME some recommendations could be made. Here are some of the recommendations to IDLC SME for the future business.

First problem from the survey is the processing fee. According to Bangladesh Bank Circular no.1 dated April 3, 2018 non-banking financial institutions can charge processing fee for SME loan by charging at actual rate. At IDLC, normally below 50 lakh BDT loans, IDLC charges 1% processing fee for the loan. To disburse a loan, IDLC has to take 15% vat, CAD charges and other charges including the processing fee of 1%. According to Bangladesh Bank, banks can't charge processing fees from their loan customer. As it is a central bank rule, so bank don't charge processing fee. Just because of that processing fee, it becomes really difficult to compete with a bank. At the same time, IDLC loss customers because of that processing

fee. What IDLC could do is decreasing the processing fee. If they decrease the processing fee to e.g. 0.5%, then it could be a good thing as customers will not get much bothered with 0.5% charge. By decreasing the amount they could acquire more customers as IDLC has a very good reputation in the market for SME loan and their customer service is very good. So, IDLC could decrease their processing fee on SME loan to get more customers.

Secondly, IDLC could organize training session for Male entrepreneurs. Now IDLC is working on Purnota training and fair but they are not working on training of male entrepreneurs. They could work on it because in Bangladesh maximum village businessman are illiterate and they don't know how to operate a business in an efficient way by using proper accounting and marketing. IDLC could give those entrepreneurs training and from that they could expand their business and by this the IDLC SME client segment will get bigger and widespread. Additionally, most of the SMEs are from outside of Dhaka and people reside in outside of Dhaka has very less formal education on business. That's why they are not using their resources in an efficient way. If IDLC organize training session on them, they could get access to better knowledge of business and they could use those knowledge and experience on their business and at the same time.

Furthermore, IDLC could implement automation on loan processing and credit appraisal for short amount of loan. At IDLC, almost 45-55% loans of the overall portfolio is below 20 Lakh amount. Processing of a 20 lakh taka loan and a 1 crore loan takes almost a same amount of time for different type of processing such as CAD processing, CRM processing and other documentation collection time period. For this reason it takes a lot of time of processing and eventually the customer needs to wait for the loan amount. What IDLC could do for saving the time and work they could create automated system for credit analysis and CRM approval. 20 lakh or below 20 lakh loans are bigger in numbers but the amount is comparatively lower and their risk is also lower than the big amount loans. So these loans don't need to take much time for analysis by several physical visits and valuation and other by SEF/MEF sales team, CRM team and others. They could implement an automation system where they could input the amount and their inventory stock price and can calculate automatically whether he is eligible for the repayment of the loan or not. This automation system could save a lot of time as it doesn't include so many physical visit and lots of paper work. So, IDLC could invent these type of automation system.

Overall, IDLC is growing very fast in last few years and they are grabbing more and more customers from different district of Bangladesh as they are expanding their business by operating in 28 branches now. They could improve their system of process so that they could save their time and at the same time they could work on new customers searching and other important tasks. By giving superior customer service they could acquire new potential customers and they could improve the Bangladesh banking arena by contributing new SME loans.

Conclusion:

SMEs are one of the main contributors of GDP in Bangladesh. Over the years small and medium size businesses are operating in Bangladesh and they couldn't get enough fund from the conventional process of loan taking for business in Bangladesh. Because of inventing and investing on SME segment, businesses are becoming very successful and they are doing very well as they are getting enough fund for expanding by getting SME loan. So many banks and NBFIs are working on it and they are creating more products for the SME businesses. IDLC Finance LTD is operating in 28 branches all over the Bangladesh with SME loan facility. They are doing research on the market and establishing new branches all over the Bangladesh. They are serving the SME segment with their expert sales team with proper financing. Moreover, IDLC is giving training to female entrepreneurs all over the Bangladesh and they are inspiring them to improve and expand their business. Finally we can say that IDLC is financing happiness.

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Appendix:

Survey Questionnaire:

Name:

Designation:

Total years working with IDLC:

Question 1: Are you satisfied with the loan disbursement process of SME loan at IDLC?

- Strongly Satisfied
- Satisfied
- Neutral
- Dissatisfied
- Highly Dissatisfied

Question 2: Do you think loan disbursement process could be made even better than current?

- Yes
- No

Question 3: What is most challenging for you while dealing with a client? (You can choose multiple)

- First class service
- Documentation
- Interest rate negotiation

Question 4: From customer view point, which one is the most important factor for a customer in terms of taking SME loan? (You can choose multiple)

- Interest Rate
- Terms
- Customer Service
- Loan disbursement processing time
- Documentation

Question 5: What possible changes you suggest for the betterment of loan disbursement process at IDLC?

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