

Report On
Supply Chain Finance & IDLC

By

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An internship report submitted to the Brac Business School in partial fulfillment of the requirements for the degree of Bachelor of Business Administration

Brac Business School
Brac University
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Declaration

It is hereby declared that

1. The internship report submitted is my/our own original work while completing degree at Brac University.
2. The report does not contain material previously published or written by a third party, except where this is appropriately cited through full and accurate referencing.
3. The report does not contain material which has been accepted, or submitted, for any other degree or diploma at a university or other institution.
4. I have acknowledged all main sources of help.

Student's Full Name & Signature:

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Letter of Transmittal

Md. Hasan Maksud Chowdhury
Assistant Professor,
Brac Business School
BRAC University
66 Mohakhali, Dhaka-1212

Subject: Submission of Internship Report

Dear Sir,

I am submitting my Internship Report titled, “Supply Chain Finance & IDLC” which is a requirement to complete my BUS400 course. During my timeline of internship, I have worked with IDLC Investment Limited. While working I came to know about Supply Chain Finance. For such, I came up with an intention of doing a research on Supply Chain Finance and Bangladesh.

I have attempted my best to finish the report with the essential data and recommended proposition in a significant compact and comprehensive manner as possible. Yet, if it requires any clarification, I will be happy to address them.

Sincerely yours,

Md. Abidur Rahman

ID: 16104186

BRAC Business School

BRAC University

Date: December 6th, 2019

Non-Disclosure Agreement

[This page is for Non-Disclosure Agreement between the Company and The Student]

This agreement is made and entered into by and between IDLC Investment Limited and the undersigned student at Stanford Student

Acknowledgement

First of all, I would like to show my gratitude's toward the Almighty who has given me strength to complete my report due on time. I would also like to thank my Advisor, Mr. Hasan Maksud Chowdhury as he has helped me throughout all the semester to make this report and research in a proper way. He always kept track on my progress and encouraged me to come up with different effective approaches.

Next, I would like to thank, Mr. Nabeel Muhammad Mosharraf (Senior Executive Officer, Operations) and Mr. Abhishek Bashak for their contiguous assistance and guidance in completing my internship.

In the end, it is necessary to mention that, this report is the result of days of hard work. I am thankful to the people who have contributed greatly behind the completion of the report, without their help this report would not have been completed within the deadline, let alone being a helpful one.

Executive Summary

“Whether you’re a buyer or supplier, our strategic programs can help you unlock millions in working capital.” This is the tagline of PrimeRevenue; a global technology and solution provider operating the largest Supply Chain Finance Programs. Supply Chain Finance not only work with the working capital it also helps the SMEs to overcome credit and liquidity crisis. As a result of globalization and excessive competitions and arising customer expectations, business face more complexity and uncertainty now than ever before. Supply Chain is playing an important role to keep the coordination among the companies. Companies are realizing they need to optimize not only material and information flow but also the financial flow and SCF helps with that financial flow.

This paper presents a comprehensive overview of the rapidly emerging SCF landscape and its broad application. Furthermore, it will help to identify the potential impact of SCM and the scope of value creation for Supply Chain Finance.

Keywords: Supply Chain Finance; Supply Chain Management; Order book management; Non-Banking Financial Institutions; Reverse Factoring.

Table of Contents

Declaration.....	ii
Letter of Transmittal	iii
Non-Disclosure Agreement	iv
Acknowledgement.....	v
Executive Summary.....	vi
Table of Contents	vii
List of Tables	ix
List of Figures.....	x
List of Acronyms.....	xi
Chapter 1 Background of the Report	1
1.1 Origin of the Report.....	1
1.2 Objective of the Report.....	2
1.3 Statement of the problem.....	2
1.4 Scope of the report.....	2
1.5 Methodology	3
1.6 Limitation of the Report.....	4
Chapter 2 Introduction of the Report.....	5
Chapter 3 Organization Overview	7
3.1 IDLC Financing Happiness.....	7
3.1.1 Philosophy.....	7

3.1.2 Vision.....	8
3.1.3 Mission.....	8
3.1.4 Products and services.....	8
3.1.5 Credit Rating.....	8
3.1.6 Organogram of IDLC.....	9
3.1.7 Branches.....	9
3.1.8 Competitors.....	10
3.1.9 Subsidiaries.....	11
3.1.9.1 IDLC Securities Limited.....	11
3.1.9.2 IDLC Asset Management Limited.....	12
3.1.9.3 IDLC Investments Limited.....	13
3.2 Cap Invest.....	16
3.3 Investment Banking.....	18
Chapter 4 Supply Chain Finance & IDLC.....	20
Mechanics of Supply Chain Finance.....	21
Supply Chain Finance in Bangladesh.....	24
Market Players.....	25
Chapter 5.....	35
Finding of the Research.....	35
5.1 Questionnaire.....	35
5.2 Recommendations.....	37

5.3 Conclusion	38
References.....	39

List of Tables

Table 1 Methodology	3
Table 2 Competitors in terms of revenue.....	10
Table 3 Achievements of IDLC in 2018.....	19
Table 4 Supply chain Benefiting the stakeholders.....	24
Table 5 Segmentation of SCF technological platform.....	30
Table 6 Best Supply Chain providers 2019	31
Table 7 Effectiveness of SCF	34
Table 8 Benefits of SCF.....	34

List of Figures

Figure 1 Organogram of IDLC	9
Figure 2 Revenue generated by IDLC	10
Figure 3 Factoring.....	22
Figure 4 Reverse Factoring.....	23
Figure 5 Supply Chain Timeline of Bangladesh.....	25
Figure 6 Market players.....	25
Figure 7 Reverse Factoring around the globe.....	28
Figure 8 reverse factoring by revenue of companies.....	29
Figure 9 adaptation of technology in SCF.....	30

List of Acronyms

SCF	Supply Chain Finance
NBFI	Non- Banking Financial Institutions
BB	Bangladesh Bank
SME	Small & Medium sized Enterprises
NBFC	Non- Banking Financial Company
TFC	Term Finance Certificate
FI	Financial Institutions

Chapter 1

Background of the Report

1.1 Origin of the Report

To complete Bachelor of Business Administration under Brac Business School; it is required to complete an internship program under a company for three months period. Alongside with that, preparing an academic report which may reflect the learnings and work experience of internship phase. I get the chance to work with IDLC Investment Limited, a subsidiary of IDLC Finance Limited. This internship helped me with the process mentioned above. Moreover, it helped me to understand how corporate world works and how to cope with the pace of corporate sector. Also, I got the chances to relate my theoretical knowledge to practical experiences. The core objective was to cope with the organizational culture before joining into the actual corporate world.

1.2 Objective of the Report

The Foremost objective of my report is to know about Supply Chain Finance and how SCF can help SMEs to overcome from credit and Liquidity crisis. The linked objective with the foremost objective is to establish why Supply chain Finance is important in Bangladesh for a unified process of Supply Chain Management and how it will be a significant factor for SMEs. This will further help to figure out the challenges and propositions based on the report.

1.3 Statement of the problem

The problem statement is that this report will enable us to understand why Supply Chain Finance is a worldwide renowned sort of financing and what IDLC is doing to create value for SCF in Bangladesh and how SMEs are important for economic growth and How SCF is helping SMEs to grow.

1.4 Scope of the report

Scope of the report depends on the company's cooperation, functions, operations and performance. IDLC is a well-known Non-Banking Financial Institute in Bangladesh. Though, Supply Chain Finance is yet to establish its own name for itself. IDLC is working on SCF and SMEs for a promising future ahead. The internship was conducted in the Head Office of IDLC.

1.5 Methodology

The step by step procedure is given below:

Table 1 Methodology

Outlining Framework
Identifying Data Sources
Collection of Data
Analyzing Data
Preparing the report

Data Collection Method:

Primary Data Collection: I got the chance to complete my internship from IDLC Head office. To get the best from my internship, I have collected my most important primary sources of data from the corporate office, face to face conversation with the colleagues, consulting with the reporting manager and in site mentor. Practical work helped me to relate and making of the report.

Secondary Data Collection: To collect the secondary data sources I have used the official website of IDLC (www.idlc.com), Annual Reports from previous years of IDLC and other Sample competitors. Competitors Websites were used to get their data. “Business Review” an IDLC monthly were used to get secondary data.

Sample:

IDLC Finance Limited

Lanka Bangla Finance Limited

United Finance Limited

Eastern Bank Limited

Brac Bank

1.6 Limitation of the Report

It was an excellent opportunity to work with one of the biggest names in Non-banking Financial Institutions in Bangladesh like IDLC Finance Limited. For writing this report I got a lot of help externally and internally from IDLC, though there were some limitations in order to prepare this report. For instance

- Limitations of time was a major drawback while preparing with a decent research.
- IDLC is privately own Non-Banking Financial Institution, which limits my ability to gain knowledge about public sector and also banking sectors.
- Collecting information from other companies were difficult as I was assigned with daily orderbook work in IDLC.
- A complete survey could not take place due to lack of time and scope, hence information provided online and survey conducted globally helped to complete the report.

Chapter 2

Introduction of the Report

A non-banking financial institution (NBFI) or non-bank financial company (NBFC) is a financial institution that does not have a full banking license or is not supervised by a national or international banking regulatory agency. NBFIs facilitate bank-related financial services, such as investment, risk pooling, contractual savings, and market brokering. Examples of these include insurance firms, pawn shops, cashier's check issuers, check cashing locations, payday lending, currency exchanges, and microloan organizations.

NBFIs supplement banks by providing the infrastructure to allocate surplus resources to individuals and companies with deficits. Additionally, NBFIs also introduce competition in the provision of financial services. While banks may offer a set of financial services as a packaged deal, NBFIs unbundle and tailor these services to meet the needs of specific clients.

Non-bank financial companies (NBFCs) offer most sorts of banking services, such as loans and credit facilities, private education funding, retirement planning, trading in money markets, underwriting stocks and shares, TFCs (Term Finance Certificate) and other obligations. These institutions also provide wealth management such as managing portfolios of stocks and shares, discounting services e.g. discounting of instruments and advice on merger and acquisition activities. The number of non-banking financial companies has expanded greatly in the last several years as venture capital companies, retail and industrial companies have entered the lending business. NBFCs are typically not allowed to take deposits from the general public and have to find other means of funding their operations such as, issuing debt instruments. NBFCs are not providing cheque book nor saving accounts, it only takes fixed deposits or time deposits. IDLC as an NBFCs have launched different sorts of services. Supply Chain Finance (SCF) was first introduced in Bangladesh by IDLC Finance Limited back in 1999. At that time, it was an

unchartered financing territory for the Financial Institutions (FIs). SCF enabled a lot of opportunities for the FIs, Quick asset building with free revenue, Cross Sell opportunity, credit evaluation is simply based on the movements of good

According to the recent most emerging markets, Small and Medium Enterprises (SMEs) face problem with their limited access to the credit and liquidity they need for their regular working capital requirements. Around the globe, Supply Chain Finance (SCF) is serving a huge number of corporations and SMEs as a source of external financing. All the stakeholders in the Supply Chain Ecosystem- the corporates, Suppliers and the dealers, Supply chain finance is a win-win situation for all of them as it opens credit access at a lower cost and operate more efficiently. Supply chain finance is a form of financing for suppliers against their account receivable which they have got after completing or delivering of goods or services on credit.

Supply chain finance tends to keep all the manufacturing process in a sync. Delay in production can cause a great damage in terms of cost for the manufacturer as it impacts in the final sale. Supply-centric mechanism of SCF ensures the receivable purchase. For that, receiving the payment ahead of time, supplier can supply their product according to the time provided by the buyer. Buyers also get the chance to use their lead time forecast accordingly as they are getting product in time.

This report has been prepared to meet the requirements of the Internship program of BRAC University. This report was made based on a three months internship program. I worked three months as an intern in IDLC Investment Limited where I gathered experiences on portfolio management, order book management, supply chain finance. I am working under Mr. Nabeel Muhammad Mosharraf, Senior Executive Officer, Operations of IDLC Investment Limited.

Chapter 3

Organization Overview

3.1 IDLC Financing Happiness

“Financing is much more than just a monetary transaction. Every transaction has a purpose, and our purpose is to finance happiness”.

IDLC started with a single product lease finance company back in 1985 with 5 staff members, 33 years down the line, emerged as the largest multi-product multi-segment Non-Banking Financial Institution in the country. IDLC Finance Limited holds a strong and diversified footing in Corporate, SME, Retail and Capital Market segments. IDLC has reached 20 cities representing 38 branches and booths with over 1400 employees, serving over 45,000 clients.

IDLC Finance, the Group’s parent company, maintains equal focus in the SME, Consumer and Corporate segments. IDLC Finance also has a significant presence in the Capital Markets through its wholly-owned subsidiaries, IDLC Investments Ltd. and IDLC Securities Ltd.

IDLC Finance Limited formerly known as Industrial Development Leasing Company of Bangladesh Limited (IDLC), is a multi-product Non-Banking Financial Institution with headquarters in Dhaka, Bangladesh.

3.1.1 Philosophy

We believe in utilizing proper financial knowledge and suitable investment vehicles for maximizing the growth of people’s wealth. In order to accomplish that, our objective is to -

- Make people aware of the criticality of financial knowledge & planning
- Aid them to materialize their plans through proper investment vehicles

- Help people feel financially secure and feel confident of a brighter and prosperous future.

3.1.2 Vision

We want to be Bangladesh's no. 1 asset management company in terms of investors' trust and Asset Under Management.

3.1.3 Mission

We want to be the most-preferred destination for investment knowledge, investment products and investment return in Bangladesh for both individuals and institutions.

3.1.4 Products and services

IDLC has different products and services in Corporate Division, Consumer Division, SME Division and the Capital Market.

3.1.5 Credit Rating

Emerging Credit Rating Limited (ECRL) has affirmed AAA (Pronounced as Triple A) long term credit rating and ECRL-1 short term credit rating to the IDLC Finance Ltd (From here on referred to as IDLCFL) based on audited financials of FY2009-2013 and other available information up to the date of rating. The outlook on the rating is Stable.

3.1.6 Organogram of IDLC

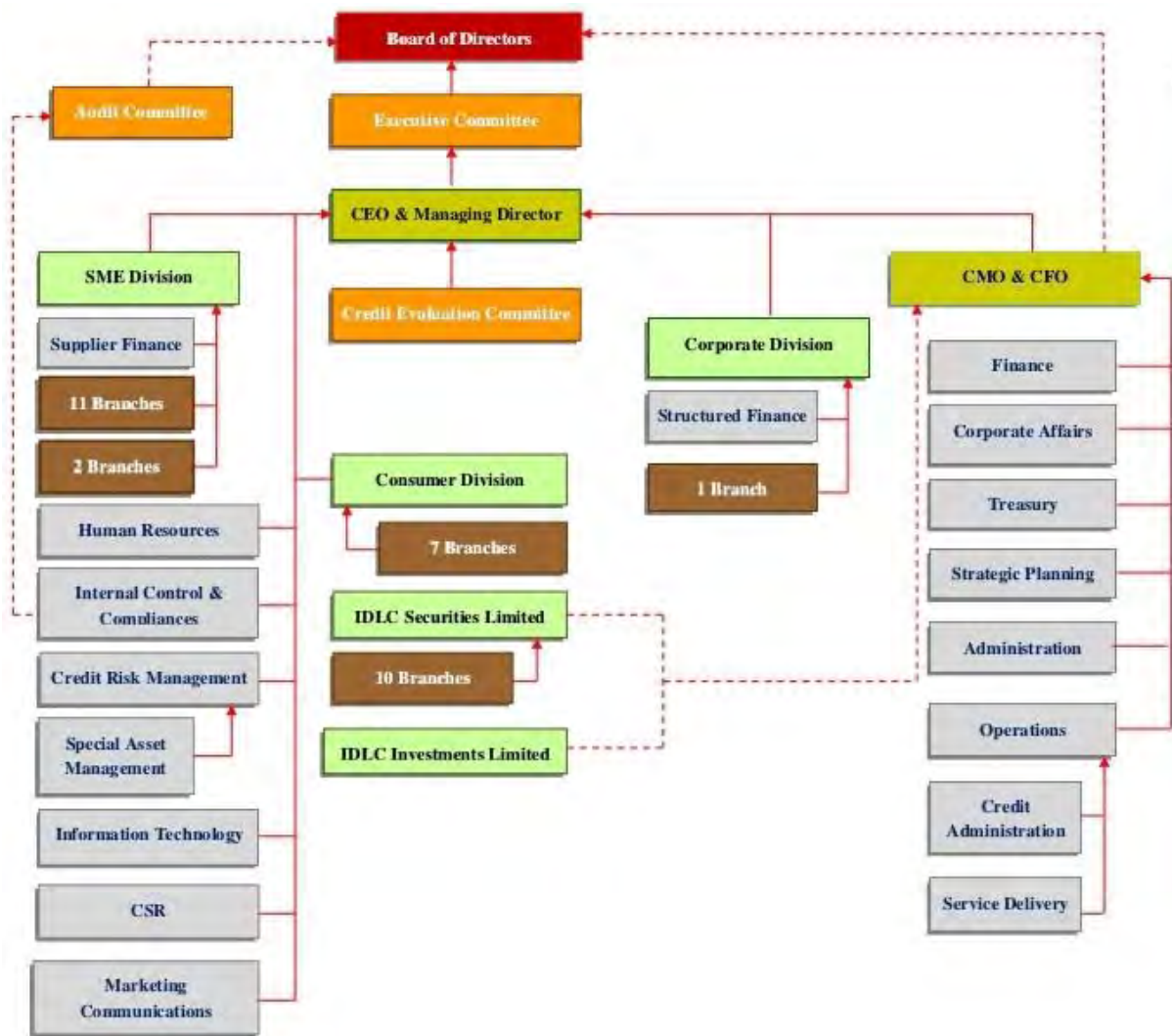


Figure 1 Organogram of IDLC

3.1.7 Branches

The following are where the branches for IDLC Finance Limited are located:

Dilkusha, Gulshan, Dhamnondi ,Uttara, Mirpur, Agrabad, Nandankanan, Narayanganj, Narsingdi, Savar, Keraniganj, Imamganj, Bogra, Sylhet, Comilla, Imamganj, Tongi, Jessore, Khulna, Natore, Bhulta, Habiganj, Kushtia, Mymensingh, RanGPur, Chowmuhani, Elephant Road, Rajshahi, Barisal, Faridpur.

3.1.8 Competitors

LOLC Finance PLC.	191.2M
MB Ltd.	165.2M
Compartamos.	750M
PayMaya Philippines, Inc	116.6M
MBSL PLC.	33.3M
LankaBangla Finance Limited.	84.9M
Bank of Hawaii Corporation.	642.7M

Table 2 Competitors in terms of revenue

Revenue



Figure 2 Revenue generated by IDLC

3.1.9 Subsidiaries

The following are the subsidiaries for IDLC Finance Limited

- IDLC Securities Limited
- IDLC investments Limited
- IDLC Asset Management Limited

3.1.9.1 IDLC Securities Limited

IDLC Securities Limited (IDLCSL) is a stockbroking company with headquarters in Dhaka, Bangladesh. The company is a wholly owned subsidiary of IDLC Finance Limited (IDLC), which was created by a joint initiative of International Finance Corporation, German Investment Corporation, Korea Development Bank, Aga Khan Fund for Economic Development, and other local and international institutions.

Services

Brokerage- IDLCSL is an establishment of broker and offers execution brokerage, premium brokerage & international brokerage.

Investment Options- Under investment options, IDLCSL offers Bangladesh Equities and bonds. On the basis of investment objective in earning returns, IDLCSL offers closed-end mutual funds and open-end mutual funds.

Trading Tools- IDLCSL offers exclusive trading tools that can manage and trade clients' portfolios through online stock trading platform i-Trade, DSE-Mobile App/ DSE-Investor/ DSE-VIP and Trade Assisted Training.

Value Added Features- IDLCSL offers value added features like Order Management System (OMS), Bangladesh Electronic Funds Transfer Network (BEFTN), Margin Trading & Depository Services.

Client Segments- Under client segments, IDLCSL has Resident Investors, NRB Investors and Foreign Institutional Investors.

3.1.9.2 IDLC Asset Management Limited

IDLC Asset Management Limited (**IDLCAML**) is an asset management company, headquartered in Dhaka, Bangladesh, with an assets under management of BDT 1.1 billion (USD 13 million). The company is a wholly owned subsidiary of IDLC Finance Limited (IDLC), the country's largest Non-Banking Financial Institution.

It offers asset management services in forms of Mutual Funds and Alternative Investment vehicles focused on Private Equity and Venture Capital space.

Products and Services Mutual Funds

IDLC Asset Management Limited offers Mutual Funds products to retail and institutional investors in form of lump sum investment and Systematic Investment Plan. The company currently has two Mutual Funds

- IDLC Balanced Fund
- IDLC Growth Fund

Alternative Investments

The company offers Private Equity and Venture Capital services for institutional investors.

3.1.9.3 IDLC Investments Limited

IDLC Investments Limited (IDLCIL) is a merchant bank, headquartered in Dhaka, Bangladesh. The company is a wholly owned subsidiary of IDLC Finance Limited (IDLC), the country's largest Non-Banking Financial Institution

IDLCIL started as the merchant banking division of IDLC in 1999. Later in 2010, it emerged as a separate company as per the requirement of Bangladesh Securities and Exchange Commission. The firm provides Investment banking, Portfolio management, Margin loans and Securities research services to its clients, which include both corporations and individuals.

Services:

1. Discretionary Portfolio Management:

IDLC offers Portfolio Management services to both individual and institutional investors through IDLC Investments Limited. Investors can avail our services through major discretionary investment accounts – Easy Invest, MAXCAP, Profit-Loss Sharing, Capital Protected Scheme and Portfolio Advisory Service.

a) Easy Invest:

Easy Invest is a discretionary portfolio management product that will build your portfolio over time, with small investments at regular intervals. As fund manager, IDLC will follow a disciplined and structured investment process, and reduce the risk of market volatility.

Key Features

- Easy Invest can be started with very small amount of money, so it is affordable
- "Auto Debit" instruction facility to eliminate need for physical submission of cheques

- Opportunity to get rebate on income tax and tax exemption for individual on capital gain
- Reduces risk because of cost averaging over a long-time horizon
- Accidental Death and Disability Insurance Coverage up to BDT 1 Lac per year (optional)
- Long term financial solutions for children's education, marriage etc.
- Disciplined and systematic approach of investment

Key Information

- Monthly investment amount (Individual/Institutions): BDT 3,000 & in multiple of BDT 1,000
- Investment Tenure: 5 & 10 years

b) MAXCAP:

MAXCAP is a personalized discretionary investment account designed for individuals and institutional clients. IDLC Investments Limited, your Portfolio Manager, will follow a disciplined investment process and structured approach to build your portfolio, tailored to your specific needs and constraints.

Key Features

- Minimum Investment Amount (Individual/Institutions): BDT 5 Lacs
- Minimum Investment Horizon: 5 (Five) Years
- Margin Loan Facility: Yes, based on investor's preference

c) Profit-Loss Sharing:

"Profit - Loss Sharing Scheme" is a discretionary portfolio management service where IDLC Investments Limited will manage your fund and take all investment decisions. This is a specific structured product where IDLC Investments Limited will be a partner of your investment with limited sharing as much as 30%. So, the ratio of the total investment will be 70:30, where client will invest 70% and IDLC 30%

Key Features

- Minimum Investment Amount (Individual/Institutions): BDT 10 Lacs
- Minimum Investment Horizon: 5 (Five) Years
- Investment and Profit-Loss sharing: Under at 70:30 Ratio

d) Capital Protected Scheme:

"Capital Protected Scheme" is a discretionary portfolio management service where IDLC Investments Limited will manage your fund and take all investment decisions. This is a specific structured product that includes a capital guarantee of the initial investment amount up to a set percentage (100%).

Key Features

- Minimum Investment Amount (Individual/Corporate): BDT 10 Lacs
- Minimum Investment Horizon: 4 (Four) Years & 3 (Three) Months
- Margin Loan Facility: N/A

e) Portfolio Advisory Service:

"Portfolio Advisory Service" is the specialized expert investment advisory arm of IDLC Investments Limited. It is a value-added service offered to our esteemed clients who seek to a high-quality portfolio management advisory and research support. We have more than one decade of expertise in analyzing performance and picking trends of the stock market. Now, IDLCIL offers you this bountiful basket of expert services as your Equity Investment Advisory

Key Features

- Minimum Investment Amount (Individual/Institutions): BDT 10 Lacs
- Minimum Investment Horizon: 5 (Five) Years
- Margin Loan Facility: N/A

3.2 Cap Invest

CAP INVEST is a 'Non-Discretionary Portfolio Investment Account' that provides margin loan facilities for individual / corporate who wants to invest in Capital Market. Capital Market differs in other markets in many aspects hence specialized services are required for ensuring optimum performance of your portfolio investment. IDLCIL is the best, able to provide you with the specialized services under this CAP INVEST product - Margin Loan Account (BO account with margin loan facilities) and Non-Margin Account (BO account without loan facilities).

Major Services

- Extending margin loan facilities to enable investors to earn enhanced return.
- Registering the securities, and collecting dividends and bonus shares.

- Subscribing to the rights issues.
- I-Trade platform for online trading and viewing updated statements etc.
- SMS and E-mail alerts.

Major Characteristics

- Cap Invest clients will have absolute discretionary power to make their own investment decisions. IDLCIL, the Portfolio Manager, will provide all support for efficient execution of the trades.
- Clients will be allowed to invest only in the securities carefully selected and approved (*ALOS-Approved List of Securities*) by the Portfolio Manager.
- The Portfolio Manager will extend Margin Loan to the clients to facilitate enhancement of their return on investments through leveraging.
- All the securities purchased for the clients shall remain in lien in favor of the Portfolio Manager.
- Clients will have access to various research materials on market, industry and companies prepared by the independent research team of the Portfolio Manager.
- IDLC Investments has a team of highly dedicated and competent professionals to provide high quality service and monitor client's margin loan account.
- Investment in "Cap Invest" will be considered allowable investments for obtaining tax rebate. Additionally, capital gains from investments are completely tax-exempted for individuals.

Key Features

- Minimum Investment Amount*: BDT 1 Lac (BDT 0.1 million)

- Margin Loan Amount*: Maximum 0.50% of client's equity, but not exceeding BDT 80 Million.
- Mark-to-Market (MTM): MTM is a gradual adjustment process to protect client's equity level. If equity level drops, deposit or partial sell will be required by the next working day to raise it. Any account having Equity to Debt ratio (E/D ratio) below 30% will be auto adjusted through daily Mark-to-Market (MTM).
- Margin Call*: In the event of the client's equity falling below 50% of the total debt liability, the Portfolio Manager will call for additional margin deposit from the client to maintain the stipulated equity to debt ratio of the given loan ratio.

3.3 Investment Banking

Our aim is to value and place the company in the financial market correctly, provide maximum return to the investors, ensure growth and continuous value creation for the company going public. Therefore, our post-listing support enables the companies to face the new regulatory environment they enter after listing. Our Investment Banking team is capable of devising innovative solution for raising capital, both debt and equity, from the market, matching the unique needs and constraints of the corporate clients. Equipped with some of the most qualified, experienced and innovative personnel in the sector, we are committed to provide the best solution to our corporate clients in terms of managing public offers.

IDLC's Investment Banking operations focus on –

Initial Public Offering, Repeat Public Offering, Rights Issue Management,

Corporate Advisory, Mergers & Acquisitions, Pre-IPO Placement/Capital Raising of forthcoming IPOs, Underwriting, Merchant Banker Service in substantial Share Acquisition and Take Over, Valuation Services for Repatriation of Sale Proceeds of Non-Resident Owned

Equity in Unlisted Companies, Acting as Trustee of bond issuances through private placement of debt securities

Achievements

BDT 2,171 Million net profit in 2018	18% Growth In customer Deposits in 2018	17% Growth in Loan Book size in 2018	BDT 5.76 Earning Per share as of 2018 end	2.2% Non- performing Loans as of Quarter 4, 2018
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Table 3 Achievements of IDLC in 2018

Chapter 4

Supply Chain Finance & IDLC

All types of financing are associated with risk. Risk minimizing is the basic concern for all the Financial Institutions. In 2018, The Market Capitalization to GDP ratio of Bangladesh dropped from 24% (in 2014) to 17%. Rising of the interest rate, alarming number of non-performing loan, negative risk premium, current account deficit all are indicating that Financial Sector is going through a challenging phase. However, against all the odds, there is a silver lining for the FIs as they are searching for an alternative way to invest their capital for a stable return.

Supply Chain Finance is that silver lining product which has a low delinquency rates, eases risks of misappropriation of funds, and assures money received by the borrowers. Besides, it also creates positive synergy within the supply chain as various stakeholders in the ecosystem get benefitted from SCF.

There are two basic benefits of SCF,

- Increasing Receivable Turnover of the supplier
- Increasing Debtor Turnover of Buyers

These are possible as FIs ensure the quick payments to the supplier by purchasing the worth of its receivable at the cost of a discount and increasing the length of period for payables due of the buyer. By doing that, it makes sure of steady cash flow to both buyers and suppliers, helping them to sustain greater level of productivity.

Supply chain finance is less costly if we compare it with other form of traditional financing, because FIs fix price based on the risk exposure for every loan. For further security, FIs do have other mechanism to minimize risk from supplier financing. For instance, selecting suppliers who have multiple corporate buyers under their belt hailing from different industries.

Mechanics of Supply Chain Finance

Supply chain finance is a trip-art solution between the various stakeholders in the ecosystem. Financial Institutions (FI) let suppliers to join a program to discount their receivables to the FI which is delivered to and accepted by the buyer. The process that FI follows is that they will make an arrangement with the buyer and the supplier so that supplier can get enough fund to continue production.

In total three parties are involved in supply chain finance:

- Buyer/Anchor
- Supplier
- Financial Institutions

There are two avenues of financing in supply chain finance:

- Factoring (Supplier Financing) and
- Reverse Factoring.

Factoring is a type of debtor finance in which a business discounts its accounts receivable (invoices) to a third party (called a factor) at a discount. This mode of financing allows manufacturers to buy raw materials (or finished goods) in order to build inventory or fulfil large orders. The whole process starts when one FI covers a corporate entity (buyer) trade credit, and acts as an intermediary between anchor/buyer and supplier. When buyer places a purchase order to its supplier, supplier will deliver the goods to the buyer, then supplier will send the bill to the financial institution which shows that the order is accepted by the buyer. FI discounts the bill amount submitted by the supplier and pays the supplier and finally buyer pays FI on the net credit terms (usually 30 to 60 days).

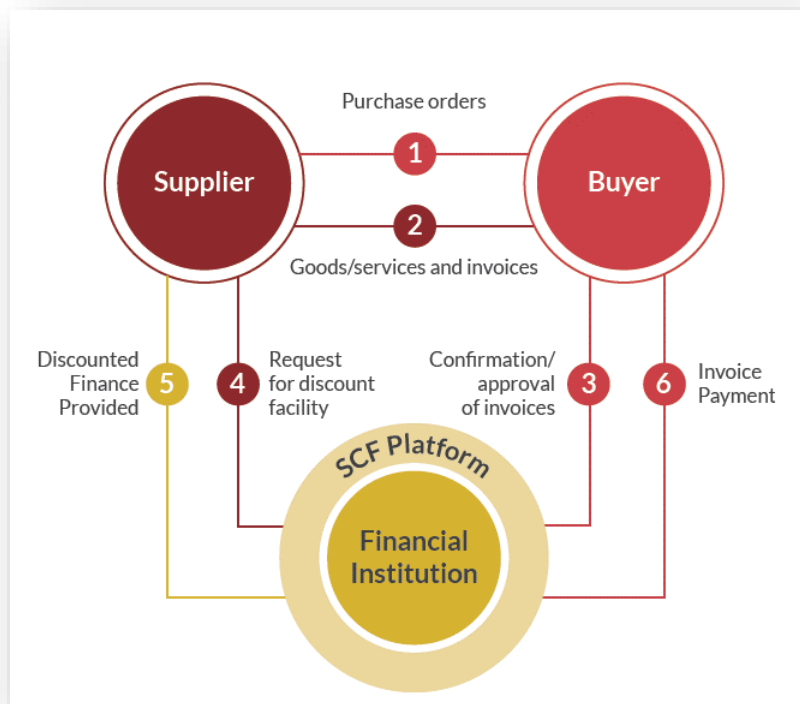


Figure 3 Factoring

Reverse Factoring takes place when an FI commits to pay a company's invoices to the suppliers at an accelerated rate in exchange of a discount. Traditional financing is all about suppliers wants to finance his receivable whereas, Reverse factoring is a financing solution initiated by the ordering party (buyer) to help their supplier to finance their receivables more easily. Typically, at a lower interest cost than what factors usually offer.

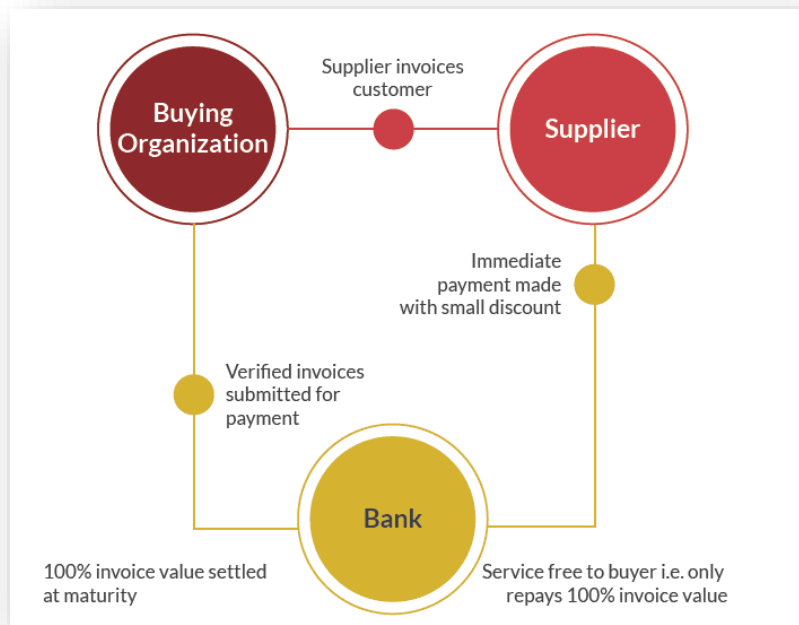


Figure 4 Reverse Factoring

In global context, reverse factoring is more preferred form of financing as it cuts down the cost of big corporates, which motivates them to arrange a financing option by themselves for their supplier so that the supplier can keep on supplying goods to meet large volume demands. As suppliers get the advantages given by the buyer it accelerates the supply chain process. Since, everyone in the chain is getting benefitted from this reverse factor it has been the most preferred method of financing for both sides of the manufacturing chain. By taking advantage of reverse factoring, corporate entities (buyers) are not putting their business into any debt. They are getting a flow of working capital to continue to function and meet their customers, vendors and employees' needs also the suppliers are getting the payment ahead of time and being able to supply finished goods according to the lead time.

How Supply Chain Finance benefits the stakeholders?

SUPPLIER	CORPORATE BUYER	FINANCIAL INSTITUTION
<ul style="list-style-type: none"> ■ Early payment reduces financial dependence on buyer ■ Reduces cost of capital by leveraging buyers credit rating ■ Increasing certainty of cash flow 	<ul style="list-style-type: none"> ■ Minimizes investment in working capital ■ Reduces cost of goods sold ■ Ensuring availability of goods of end user 	<ul style="list-style-type: none"> ■ Diversification of risk ■ Quick asset building and fee revenue ■ Cross sell opportunity ■ Credit evaluation is simply based on the movement of goods ■ Defined end use resulting into lower risk of diversification of fund

Table 4 Supply chain Benefiting the stakeholders

Supply Chain Finance in Bangladesh

Supply Chain Finance was introduced in Bangladesh by IDLC Finance Limited in 1999, At that time it was in unchartered financing territory for the FIs. In 2006, United Finance Limited started offering SCF and Lanka Bangla Finance Limited followed the path. IPDC finance had a small portfolio of supply chain finance at that period, although it was discontinued after a while. In 2016, IPDC Finance came back strongly with supply chain finance with a view to capturing the lion's share of the market. Meanwhile, few top-notch banks introduced this facility and created small portfolio of their own. In Bangladesh, the most popular form of supplier financing is factoring. Reverse factoring is not so famous because buyers do not want the extra leverage over them in Bangladesh. Recently initiatives were taken to introduce and highlight the first Digital Supply Chain Platform is set to launched very soon. Currently the portfolio is around 600crores (\$71.3M).

Bangladesh Supply Chain Timeline

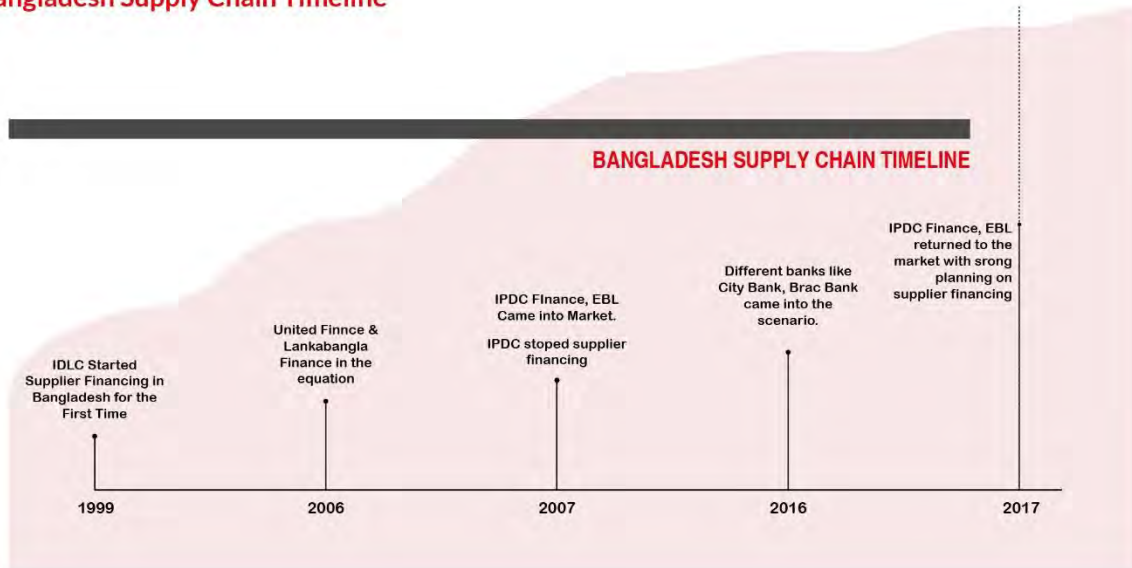


Figure 5 Supply Chain Timeline of Bangladesh

Market Players

Analyzing the size of portfolio, NBFIs are in the frontline for SCF. IPDC, IDLC, Lanka Bangla are putting their effort in creating a valuable portfolio. Top-notch banks like Eastern Bank Limited (EBL), City Bank, BRAC Bank are also getting into the market very recently.

Current portfolio of Market Players (Apprx.)	
Name of FI	Portfolio Size
IPDC Finance Ltd.	BDT 180 Crore
Lanka Bangla Finance Ltd.	BDT 155 Crore
United Finance Ltd.	BDT 130 Crore
IDLC Finance Ltd.	BDT 74 Crore
Others	BDT 61 Crore
Total	BDT 600 Crore

Source: industry insider

Figure 6 Market players

City Supply Chain Finance Platform

City Supply Chain Finance is a set of technology-based business and financing processes that link the various parties in a transaction: the buyer, seller and financing institution - to lower financing cost and improve business efficiency.

EBL Supply Chain Finance

Supply Chain Financing is the latest Strategic Business Unit of EBL Retail Banking Supply Chain Finance is the most attractive way for companies to better manage the working capital by facilitating their suppliers and dealers' access to advantageous financing facilities. Supply Chain Finance (SCF).

Supplier Finance

- Financing against approved invoices
- Up to 85% financing of the invoice amount
- Limit up to BDT 5 core
- No collateral/security
- Uninterrupted cash flow

Dealer Finance

- Seamless cash management facility to lift stock daily
- Flexible tenor matched with cash cycle
- Financing up to BDT 1 core

- No collateral/security (up to BDT 25 lac)
- Real-time digital channel for payment transactions

Supply Chain Finance around the Globe

In early 1970s, Fiat an Italian Automaker introduced a new arrangement with its suppliers. It was about approving suppliers invoice much earlier than the typical time margin. Supplier used this quick formal approval to get cheaper finance and Fiat could negotiate better margin with them. This idea was the early form of reverse factoring. Although, it was taken up in Spain 20 years later, where it was called “Confirming”. Banco Santander has offered a Reverse Factor Solution since 1991. The term Supply Chain Finance was first used in an academic article by Stemmler and Seuring to raise awareness that considerable cost savings can be achieved if Supply Chain and Financial cashflow are optimally designed.

Mostly, around the globe the most famous way of supply chain financing is reverse factoring. According to the Aite Group, the estimated potential volume of reverse factoring ranges from \$255 to \$280 Billion globally. Growth in SCF is rising gradually. Moreover, research conducted by Demica reflects SCF at major international FIs are growing by a rate of 20 to 30% a year, expected future growth will be driven by local supply chain. As SMEs are using Anchors high credit rating to get the accounts receivable, it is also helping them to grow gradually and SCF is becoming more popular.

Recent survey of “SCF Barometer 2018/2019” shows how adaptive reverse factor is globally.

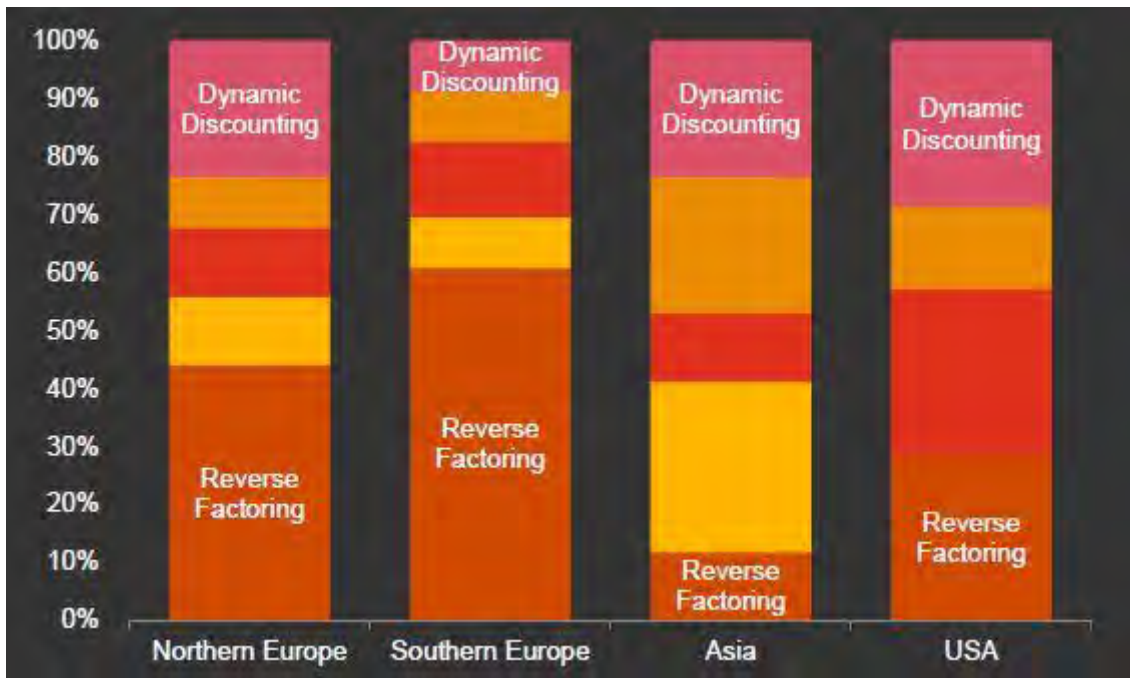


Figure 7 Reverse Factoring around the globe

Reverse Factor has a huge impact on Northern and Southern Europe SCF program. Even though, it has a little portion in Asia, as Asia has yet to get sufficient with the reverse factor method.

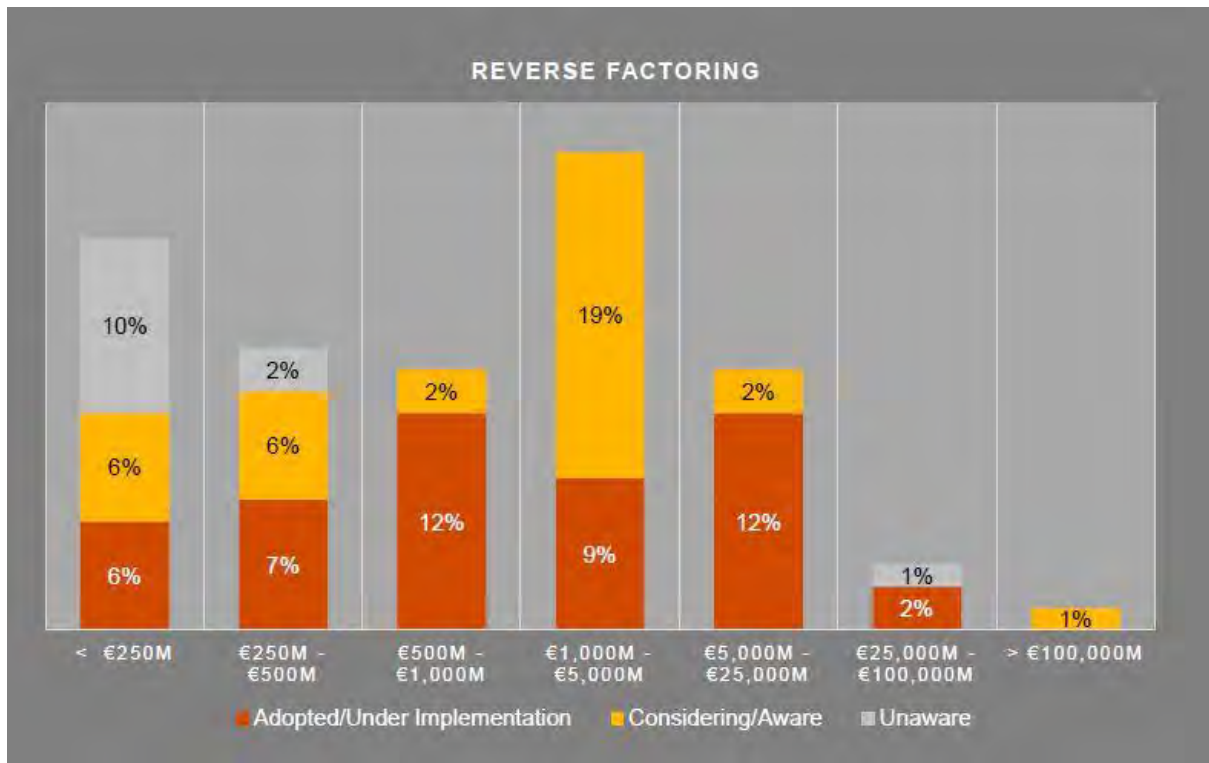


Figure 8 reverse factoring by revenue of companies

Technology-Enabled Supply chain Finance

Many industry players believe that blockchain can solve some of the supply chain finance problems as the technology makes data credible. Technology makes data credible, transparent and transaction settlement more efficient. Blockchain has been introduced to SCFs recently. It will also ease the load of doing paperwork. Tencent FiT, a division of Chinese media and tech giant Tencent, is creating an open SCF platform based on Blockchain technology. For being successful as an effective SCF technology solution, 3 things need to be considered. These are Automation, Simplicity, and Scalability.

Automation	Simplicity	Scalability
<p>Key Features:</p> <ul style="list-style-type: none"> • Speed of transactional flow • Data collection from physical supply chain flows • Reporting functionality • Integration with the core banking system <p>Key Benefits:</p> <ul style="list-style-type: none"> • Increased productivity • Timeliness of invoice delivery • Multi-party transaction visibility • Efficiency 	<p>Key Features:</p> <ul style="list-style-type: none"> • Intuitive interface • Structured workflow, easy accessibility by all parties • Flexible connectivity to various core systems <p>Key Benefits:</p> <ul style="list-style-type: none"> • Ease of use for ultimate user • Minimum level of training required for staff and trade counterparts. 	<p>Key Features:</p> <ul style="list-style-type: none"> • Ability to scale up transactional volume • Efficient problem solving with integration and operationalization • Ability to extend offering to more than one product <p>Key Benefits:</p> <ul style="list-style-type: none"> • Reduced number of errors • Unconstraint business growth

Source: IFC

Table 5 Segmentation of SCF technological platform

Impact of technological Drivers

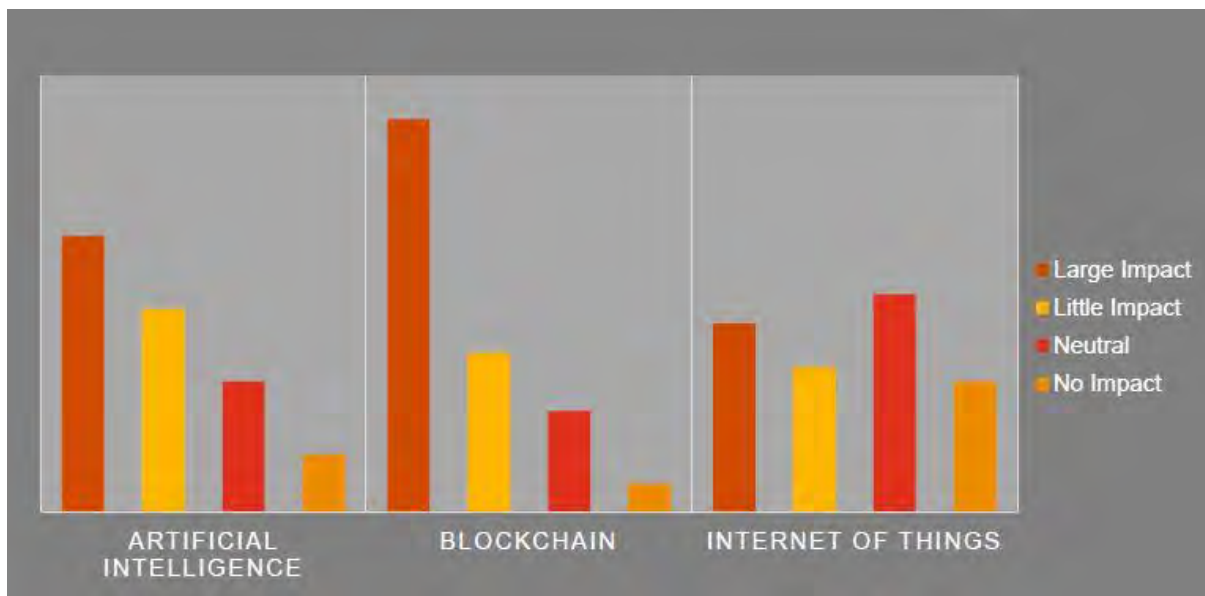


Figure 9 adaptation of technology in SCF

Best Supply Chain Finance providers in 2019

WORLD'S BEST SUPPLY CHAIN PROVIDERS 2019	
GLOBAL WINNERS	
Category	Bank
Best Supply Chain Finance Provider - Bank	Standard Chartered
Best Supply Chain Finance Provider - Non-bank	Demica
Best Customer Implementation	DBS, Agrocorp and Distributed Ledger Technologies - Blockchain Platform for Commodity Trades
Best Platform Connecting Buyers/Sellers/Financial Institutions	Orbain
Best E-Procurement	SAP Ariba
Best Dynamic Discounting System	TReDS
Best Pre-Shipment Financing Solution	BNP Paribas
Best New Application of SCF Technology	TradeIX and R3's Marco Polo Network

Table 6 Best Supply Chain providers 2019

Standard Chartered

Standard Chartered slogan is “Banking the Ecosystem” indicates its goal of integrating the physical and financial Supply Chains for buyers and suppliers and their customers. Working with the small suppliers is very risky. But technology leveraged from fintech’s, Standard Chartered is able to offer a comprehensive range of financing solutions. The bank provides assistance at all different stages in Supply Chain, including pre-invoice approval and pre-shipment.

Demica

Demica is active in SCF market since 2002. Trade receivable, invoice finance and trade receivable are their basic concern over in Asia, Europe, and North America. In 2018, Demica

announced a partnership with the International Finance Corporation that aims to unlock \$9.8 billion in annual financing for suppliers and distributors, mostly small to medium-sized enterprises, in emerging markets, where the trade finance gap is estimated at \$4.5 trillion. It also announced plans to move into inventory finance.

Overcoming SMEs Financing and Supply Chain Obstacles

SMEs play an important role for economic growth and GDP and development in any country. As, SMEs are the base for country's private sector. The entrepreneurs considered as most important part for economic development most of the time fall in an inferior position because of lack of easy access to financing. Basic Problems that SMEs face are:

- Lack of co-ordination & co-operations between parties

In most of the cases, buyers of SMEs are big companies, so without knowing their capabilities sometimes SMEs accept term and conditions which they cannot fulfil later on.

- Potential Risk Negligence

Being small in size, SMEs often overlook the potential risks, considering them more flexible and agile as compared to large Organizations. SMEs under Supply Chain who don't confront risk as their basic priority often face major challenges related to scalability and unstable demand.

- Limited Accessible Technology

Lack of utilization, misuse of assets, poor execution, value-based center with poor administration and lack of technological advancement makes the procedure slow, problematic and expensive.

- Locked working Capital

Even though, SMEs are key connection of Supply Chain but due to lack of negotiation power they face problem with their buyer and also from their supplier.

Overcoming SMEs challenging using SCF

Supply Chain Finance establishes a connection between a buyer, a supplier and a financial institution. Both Supplier and Buyer are always look for financial advantages to get from authorizing working capital. In Supply chain, both parties have different interest regarding financial transaction timing. Buyers like to pay as late as possible whereas suppliers want to get paid as soon as possible. Most of the time SMEs, startups could not cope with the late payment and other problems resulting in bankruptcy and winding up their businesses. Usual kind of SCF, such as factoring and reverse factoring help to decrease the rivalry between supplier and buyer. SCF follows the value as it moves through the supply chain network. SCF helps both buyer and supplier to free up their working capital and keep up a higher level of liquidity by introducing an intermediary Financial Institution. It permits the buyer to hold the payment a little longer whereas, supplier got paid early. The rate of charge and time period are given based on the credit rating buyer and supplier carries with them.

Effectiveness and Benefits of SCF

Buyer	Supplier	Bank
<ul style="list-style-type: none"> - Improved cash flow - Optimized working capital - Mitigated risk - Reduced cost - Low interest rates - Freed up credit lines - Automated payment - Extended DSO - Discounted price from suppliers - Improved delivery - Lower risk on supplier innovation 	<ul style="list-style-type: none"> - Improved cash flow - Optimized working capital - Mitigated risk - Reduced cost - Low interest rates - Stable payment policy - Automated payment - Reduced DSO - Fast access to cash - Enhanced distribution network - Debt free balance sheet 	<ul style="list-style-type: none"> - Optimized working capital - Mitigated risks - Reduced cost - Short duration - Self-liquidating financing tools - Expanded business volume - Improved liquidation management - New ventures prospects - New customers opportunities - Additional Income from financing - Cross-selling opportunities

Table 7 Effectiveness of SCF

Benefits

Quantitative Benefits	Qualitative Benefits
<ul style="list-style-type: none"> • Financing, liquidity and working capital reserve funds by offering short term credit, improves working capital for both buyer and supplier • With enhanced competency and by decreasing financing cost, management cost could be saved. • Risk cost saving through different alternatives, for example, factoring on a non-response or a constrained plan of action premise (which implies that for the SME, the risk of non-payment is exchanged or in part exchanged to the lender) or credit insurance (which implies that on account of non-installment by the SME the insurance agency pays). 	<ul style="list-style-type: none"> • Improving supply chain connections by empowering cooperation amongst buyers and vendors as opposed to rivalry. In the meantime, FIs comprehend and relate better with their customers. • Reporting advantages that come by means of mechanization of tasks that is frequently connected to SCF and which thusly profit constant precise data that upgrades enquiry and straightforwardness for all participants. • Improving compliance value by means of authorized consistence prerequisites and additionally process mapping, risk identification, controls and detailing.

Table 8 Benefits of SCF

Chapter 5

Finding of the Research

5.1 Questionnaire

Who are the eligible suppliers?

Suppliers need to have these criteria fulfilled to crack into the system of SCF:

- A good payment track record of minimum two (02) years with the anchor
- Working with the anchor on a recurring basis; project-based work is not desired by FI due to lack of accountability on the anchor
- Having multiple corporate buyers (preferably two or three) in portfolio

Why reverse factoring is not evident in Bangladesh?

Around the globe, reverse factoring is the most popular mode of supply chain financing. In Bangladesh, the scenario is not evident due to-

- Absence of regulatory policy regarding supply chain finance implies no legal implication on the buyer/corporate entities. Rather, they prefer to go for composite facilities. Therefore, they tend to nurture a lukewarm behaviour towards this mode of financing.
- The other side of the coin illustrates a scenario that few corporate entities who approach for reverse factoring, have already their line of credit all used up. Therefore, it is prudent for the FIs not to go for those buyers, since they pose a high probability of default.

Why Supply Chain Finance still could not gear up in Bangladesh?

- **Buyer's Participation:** Most of the big corporate entities in Bangladesh conduct their business based on credit. They buy goods from the suppliers on credit. However, corporate anchors are unenthusiastic to provide assignments for the goods delivered. Assignments are corporate Letter of Comfort that provides FIs a minimum guarantee that the goods are received by the anchor and the anchors recognize the credit amount as their payable. In that case, the receivable of the supplier is recognized officially by the anchor and this Letter of Comfort lowers the risk level for the supplier. Therefore, with assignment and with lower risk level, suppliers can manage the fund in a low discounting rate which is beneficial for them. However, this practice is not evident and this phenomenon makes the suppliers bound to take financing with higher rate. Eventually, it demotivates the suppliers to use this mode of financing. Many corporate entities that used to give assignments to the financier are not continuing with the practice due to their negligence about supply chain financing.
- **Not yet a recognized product:** Bangladesh does not have any legal policy or guideline or legal framework for factoring. Bangladesh Bank still does not recognize SCF as a separate product. Till date, no separate circular was made on SCF products from BB. Currently it is treated under circular for short term revolving loan.

5.2 Recommendations

- The driving force in this sector needs to get different attention from policy level. SCF needs to consider as a separate product. Else, buyer and supplier will have their due accountabilities, this product will keep waning.
- Corporate Entities need to come forward with a mentality to support their suppliers instead of considering them as their rivals. Suppliers who have worked with them on recurring basis should get the priority to considered for reverse factoring. As reverse factoring is making SCF known worldwide Bangladesh should emphasise on reverse factor more and more.
- Blockchain powered digital platform is the next generation Supply chain financing. Services like factoring, reverse factoring, work order and distributor financing will be so easier if digital platform can take place in Bangladesh. Automation of current manual process will pace up with the work. As it is based on blockchain, all the transaction between supplier and buyer will be so transparent. Both of them will have automated access to a cloud-based network which will be automatically updated when finished goods will be served and FI will transfer money to the Suppliers.

5.3 Conclusion

Companies need working capital, and cash optimization is a tangible incentive for both buyer and supplier. IDLC is playing an important role in establishing Supply Chain Finance in Bangladesh. It was not a well-known source of financing till now in Bangladesh. Alongside with other countries, Bangladesh should imply SCF and big companies of the country need to come forward with an open mind. Recently, Nestle Bangladesh has taken a step towards SCF by signing vendor financing with HSBC, first of its kind in Bangladesh for efficient and cost-effective working capital solution. If buyers come forward and imply the reverse factoring also supplier finance it will help to bloom the Economic condition of Bangladesh as SMEs will start to bloom accordingly.

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