

## Report On

Analyzing the scope of Refinancing schemes using scenario and gender disparity analysis within pre and post Covid Bangladesh

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  
May 2022

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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/We have acknowledged all main sources of help.

**Student's Full Name & Signature:**

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**Aliya Fairuz**

Student ID: 18104217

**Supervisor's Full Name & Signature:**

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**Sang. H. Lee**

Professor & Dean, BRAC Business School

BRAC University

## Letter of Transmittal

Sang. H. Lee

Professor & Dean,

BRAC Business School

BRAC University

66 Mohakhali, Dhaka-1212

Subject: Submission of internship report

Dear Sir,

It is my pleasure to submit my internship report as a requirement of the BBA program at BRAC University. I aim to provide analysis about the impacts of SME refinancing during post and pre covid Bangladesh within this report.

During my internship at IDLC Finance limited, I have worked within the SME Product and business management department. Throughout my internship, I've been exposed to various procedures concerned with SME refinancing schemes carried out by IDLC. This experience has allowed me to gain practical hands-on experience regarding the documentation procedure associated with refinancing. Along with that, I've oversaw loan application forms and the Bangladesh bank dashboard entries associated with refinancing. I have attempted my best to complete the report with the essential data and recommended proposition in a significant compact and comprehensive manner.

I hope that the report will meet your approval and look forward to your valuable feedback.

Sincerely yours,

Aliya Fairuz

Student ID: 18104217

BRAC Business School

BRAC University

Date: April 20, 2022

## **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 Finance Limited and the undersigned student at BRAC University Aliya Fairuz.....

## **Acknowledgement**

I am very grateful for the opportunity to work as an Intern at IDLC Finance Limited and to be guided under the tutelage of the SME Product and Business Management team. I am very grateful to my supervisor Sang. H. Lee, who is currently the Professor and Dean of BRAC Business School for guiding me throughout the whole period.

## **Executive Summary**

Many CMSME's were drastically affected by covid 19 due to a reduced business activity and economic uncertainty. As operating expenses increased and the income of key customer segments fell, these businesses were disproportionately hit. As a result, their net profits dwindled and reducing their ability to finance their working capital and business expansion projects. This brought in a greater need for refinancing facilities that allow these businesses to avail loans at more affordable rates. Due to these circumstances, Bangladesh bank introduced stimulus packages to aid such businesses and continued providing refinancing assistance to banks, FI's and NBFI's. The impact of these schemes is significant upon the most vulnerable groups of society who are unable to afford these loans normally. Yet, there are key stakeholders who struggle in availing these facilities despite SME disbursements rising over the years. IDLC massively focuses on reaching out to CMSME segments through their collaboration with Bangladesh Bank. However, covid 19 also affected the capacity of such NBFI's to expand disbursements which only raised the existing constraints they have towards providing refinancing schemes. This report will aim to provide comprehensive company and industry analysis to further analyze the trends set within the SME financing segment within Bangladesh. More focus will be placed upon examining the potential for refinancing in these circumstances while contrasting all the analysis in a post and pre covid environment. Additionally, other tools of SME refinancing will be compared against SME Refinancing to further analyze the potential economic impacts.

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## List of Acronyms

CMSME	Cottage, Micro, Small and Medium Enterprises
ADB	Asian Development Bank
WEL	Women Entrepreneur Loan
BB	Bangladesh Bank
FI	Financial Institution
NBFI	Non-bank Financial Institution
MSME	Micro, Small, Medium Enterprises
EMI	Equal Monthly Installments
MFI	Monetary Financial Institution
MFS	Mobile Financial Services

## **Chapter 1: Overview of Internship**

### **1.1 Student Information: Name, ID, Program and Major/Specialization**

Name: Aliya Fairuz

ID: 18104217

Program: Bachelors of Business Administration (BBA)

Major: Finance major, Economics minor

### **1.2 Internship Information**

#### **1.2.1 Period, Company Name, Department/Division, Address**

Internship Period: January 5<sup>th</sup> to April 7<sup>th</sup>

Company: IDLC Finance Limited

Department: Product and Business Management – SME

Address: Gulshan Branch Bay's Galleria (4<sup>th</sup> floor), 57 Gulshan Avenue, Dhaka 1212, Bangladesh

#### **1.2.2 Internship Company Supervisor's Information: Name and Position**

Supervisor name: Sushmita Saha

Position: Assistant Manager & Head of Digital Loan – SME, Product & Business Management – SME

#### **1.2.3 Internship Responsibilities and contributions**

During the first 2 weeks of every month, refinancing documents are checked and processed before it is printed and sent to Bangladesh Bank. My main task was monitoring pending documents and examining discrepancies in existing documents. Refinancing schemes have a specific set of guidelines created by Bangladesh Bank that must be followed when assessing

documents. I was tasked with checking documents for the following refinancing schemes: Stimulus, AGRO, JICA, ADB, New Entrepreneur/Shombhabona, WEL.

Sanction letters, NID, Trade license and disbursement proof is checked for all of these schemes. Sanction letter loan amounts are observed and matched with the loan disbursement proof. Additionally, the purpose of loan is observed to see if businesses are applying for this scheme for working capital, business expansion or machinery and equipment. The rate of interest, tenure and FDR lien rules are observed to see if it meets the requirement. All four of these documents are monitored in all WEL applications along with assessing whether the business is run by women entrepreneurs.

**Rate of interest for refinance schemes:**

Stimulus	JICA	AGRO	ADB	New Entrepreneur	WEL
9%	8.5%	7%	6%	7%	5%

*Table 1: Refinance schemes interest rate*

Under Stimulus, BB and AIIB checklist is also observed to see if documentation errors were done. Checklist errors often include mistaken sales figures, ticking wrong boxes, inaccurate date etc. Finally, Sales report of clients are observed to see whether sales for April, May and July is less than average sales for the remaining months. This is done to note whether these businesses struggled during covid and are eligible to receive stimulus loans to recover their income.

The repayment schedule, bill/memo, quotation and BMRE report is additionally checked for AGRO, JICA, New Entrepreneur and ADB schemes. The BMRE report figures are matched with bill and quotation to note any discrepancies. The BMRE report lists the total contribution by IDLC and the figures for quotation and bills. As many clients prefer their loan disbursement to directly be sent to their vendor to fulfil their payments, I looked through vendor payment request letters. This is checked again with disbursement proof to see if in fact vendors were sent the loan. This process is closely tied to functions within supply chain financing that allows IDLC to tap into more SME customers. Once all documents are checked, the pending corrections are sent to CRM (Credit risk management) or to business bill.

Secondly, I was also tasked with data inputting on the Bangladesh Bank Dashboard. Every two weeks, disbursement data for CMSME schemes are entered into the dashboard. This is thoroughly done to avoid discrepancies in total figures for each district.

Thirdly, I helped in the checking of various loan application forms where I checked fixed assets, sales and number of employees. This is matched to see if loan applicants properly reported their figures against what is entered on the OCAS appraisal system.

Next, I collaborated with the team in the processing of credit guarantee scheme documents. Credit guarantee schemes were created to help covid affected CMSME's access loans through the process of risk sharing. Many banks and FI's are deterred from providing loans to such businesses because they are perceived to be of high risk. CGS speeds up loan disbursements for the most vulnerable communities such as landless farmers and small traders. The bank or NBFIs take a CGS against the loan payable. The central bank absorbs their losses on loans provided to CMSMEs in the instance of default, in return of a fee (World Bank Group, n.d.). Hence, this provides third party risk mitigation to lenders to ensure SME's can avail credit. During my internship, I was tasked with managing approval documents for CGS funds to ensure diligent document processing.

I would conclude that my work at IDLC contributed towards efficiently performing tasks that aid in the process of refinancing. Crucially Bangladesh bank has specific guidelines and metrics that need to be met before releasing funds and so these tasks need to be performed meticulously for the functioning of the department. Additionally, as IDLC operates in a vast geographical area in Bangladesh, we would receive documents for over 50 SMEs per month. Hence, I was able to assist the team during the most hectic period of the month. As I was also tasked with speaking to different credit analysts and assistant managers, I also helped manage any miscommunication or mistakes performed by them within the documentation. As a result, I was able to directly deal with the bottlenecks within the process and ensure more operations ran more smoothly.

## **1.3 Internship Outcomes:**

### **1.3.1 Benefits to the student**

Through my internship, I gained exposure to the activities of refinancing and received practical experience about how these activities are carried out. I received a greater outlook about how SME refinancing functions within Bangladesh. Moreover, I was able to familiarize myself with various Bangladesh Bank refinancing documents and SME loan disbursement procedures. The experience broadened my knowledge in lieu of IDLC being the largest NBFIs within the

country. As a finance major, I was able to understand various fields tied to SME financing including supply chain finance. This allowed me to utilize all the knowledge taught in classrooms on a more hands on practical level. Additionally, I was able to work with a diverse team and learn various functions of the business from each of them. Lastly, I was exposed to new schemes such as CGS and acquired broader knowledge about the SME credit industry as a whole.

### **1.3.3 Difficulties experienced during the internship period**

Usually, Bangladesh Bank requires all refinancing documents to be sent within the first 2 weeks of every month and so all of the checking and correcting has to be completed before that. There was a lot of repetitive checking done for these documents because people would delay sending documents or corrections wouldn't be done properly. As a result, the same documents are monitored and checked repeatedly and it extends the process by a few days. This would be extremely time consuming and would raise work pressure even further in the next few days.

The Bangladesh bank dashboard entry that has to be done every two weeks to input all the new data of SME disbursements had its struggles. If any mistakes were made, then the data would have to be manually altered because there's no option to delete mistaken inputs. Moreover, the data entry would have to be sought after by manually scrolling through many entries because no filter key was available on the dashboard site. This would perhaps lengthen time taken to perform tasks as these data inputs often have to be very meticulously.

### **1.3.4 Recommendations (to the company on future internships)**

There are specific and crucial guidelines that need to be followed when assessing refinancing documents. As all of these schemes have different guidelines and even the smallest errors need to be reported, a proper guideline could be prepared beforehand by the team. Currently, the officers explain and guide the interns through the whole process and familiarize them with all the metrics. Since it's a plethora of sensitive information that needs to be digested within a short span of time, a short document could be prepared beforehand to list some of the steps to help the intern get better acquainted with their tasks. It could also be kept by the intern as a reference point. As the SME Product and business management team recruits' interns all over the year to assist them during hectic document processing periods, it could reduce information

gaps and make the process more efficient as a whole. Since often one intern leaves before the other joins, it isn't feasible for the previous intern to properly guide and train the incoming during their last few days. Hence, this information dissemination solution could prove to be useful in the long run.

Additionally, there are many issues that arose in the PC that's commonly used by all the interns in the department. Often there would be technical difficulties when sending out print commands and this would create delays and hiccups when printing out over 50 SME refinancing documents. Thus, another suggestion would to perhaps update those PC's or to have a designated printer attached with the PC so that documents can be printed out more quickly.

## **Chapter 2: Organization Part**

### **2.1 Introduction**

IDLC Finance limited is currently one of the largest NBFIs within the country. The company was officially licensed during 1995 and then they opened their first SME focused branch in Bogura in 2006. Currently their SME division occupies over 37.54% of their total customer lending and has been growing at a compound annual growth rate (CAGR) of 26% over the past 10 years.

The organization has been expanding through its subsidiaries: IDLC Securities limited, IDLC Investments Limited, IDLC Asset Management limited. The organization focuses on pursuing their vision of being the best financial brand in the country. Alongside that, their mission is to focus on quality growth, superior customer experience and sustainable business practices. Alongside that, they have embedded their core values into their organization philosophy which includes values such as integrity, customer focus, equal opportunity, eco-friendly traits, passion, simplicity and trust.

### **2.2 Overview of the company**

The company has a plethora of products and services that they offer to maintain a competitive edge in the market. Under their consumer division, they provide home loans, personal loans

and car loans. Through their corporate division, their services are categorized as corporate finance, structured finance solutions, green banking solutions. Corporate finance services aim to provide term loans, lease financing, working capital loans and commercial space loans. Structured finance solutions focus on debt syndication with local and foreign currencies, agency and trusteeship, zero coupon bonds, balance sheet restructuring, commercial paper etc. While green banking solutions focus on achieving the company's goals of sustainable growth by conducting green socially responsible financing. They do so by incorporating ESG (environment, social, governance) metrics within their business decisions. They've particularly done green refinancing to aid SME's that undertake sustainable business initiatives. IDLC currently provides finance to 32 export-oriented industries and sectors under their refinance scheme of Technology Development Fund (TDF) to encourage them to install upgraded machineries and technologies. Additionally, they provide working capital and demand loans to green projects for sustainable CMSME's or business sectors that comply with Bangladesh Bank's Sustainable Finance Policy (SFP).

Moreover, they have their deposit division that provides regular deposits and digital deposits. Regular deposits specifically entail flexible term deposits, monthly earner deposit, triple money deposit, monthly fixed DPS. While digital deposits include online deposit and digital DPS. Recently, IDLC partnered with bKash to launch a digital savings program to allow for more people to conveniently utilize term deposit services. bKash is currently the largest MFS platform in the country and widely used by large parts of the unbanked population.

Lastly, IDLC has a specific SME division that provides small enterprise financing and supply chain finance. Small enterprise financing provides SME term loans/leases, Women Entrepreneur loan, Working Capital Loan, Seasonal loan, SME Shombhabona (New Entrepreneur), commercial housing loans etc. They additionally provide supply chain finance services which allows for work order financing, distributor financing and factoring of accounts receivables. According to the definition of SME's provided by Bangladesh Bank below, IDLC categorizes these enterprises when providing out loans. It can be noted here that micro and cottage are the relatively smaller sectors compared to small, medium and trading sectors.



## NEW CLASSIFICATION OF SMEs

ENTERPRISE	FIXED ASSETS excluding land and buildings	EMPLOYEES	LOAN LIMIT
MICRO	Tk 10 lakh- Tk 75 lakh (Manufacturing)	16-30 or less	Tk 1cr
	Less than Tk 10 lakh (Service)	15 max	Tk 25 lakh
COTTAGE	Less than Tk 10 lakh	15 max	Tk 10 lakh
SMALL	Tk 75 lakh-Tk 15cr (Manufacturing)	31-120	Tk 20 cr
	Tk 10 lakh-Tk 2cr (Service)	16-50	Tk 5cr
MEDIUM	Tk 15 crore-Tk 50cr (Manufacturing)	121-300 (Garments 1,000 min)	Tk 75cr
	Tk 2 crore-Tk 30cr (Service)	51-120	Tk 50cr
TRADING SECTOR	Less than Tk 10 lakh (Micro Enterprise)	15 max	Tk 25 lakh
	Tk 10 lakh-Tk 2cr (Small Industry)	16-50	Tk 5cr

Figure 1 Classification of SME's

## 2.3 Management Practices

### 2.3.1 Human resource practices

As a part of their succession planning, IDLC focuses on identifying potential and talent and then focuses on enhancing their performance. The company creatively designs their development programs via classroom teaching, coaching and on-the-job based learning interventions. In the SME division, there are strategic sessions regularly to encourage more strategic discussions regarding daily activities and concerns. Additionally, they move resources cross functionally and have employees learn from other challenging roles. This action was evident in 2021 where there was an 84.21% increase in the number of employees promoted to managerial positions.

The recruitment process at IDLC focuses on screening applicants for various job positions through written examinations, assessment discussions and panel interview. They externally and internally recruit based on requirements and urgency. Furthermore, the IDLC training team undertakes various training initiatives to develop talent in their organization. They conduct foreign training by sending their employees abroad for exposure. They also conduct in house

and customized training sessions to develop skill sets within the company. There is also a strong culture of employee engagement within the company where employees are regularly encouraged to participate in various team building activities to foster team cohesion. As a result, IDLC fosters democratic leadership within their company. Team leaders and heads regularly communicate and engage with their team members to encourage everyone to participate in the decision-making process.

In terms of their performance appraisal, IDLC circulates a form that is used to monitor and assess the competency and quality of work performed by each employee. This plays a large role in their career progression and also identifies whether employees are meeting their KPI based performance targets. Moreover, the CEO of the company sets financial targets and goals for the management committee members and then reviews the performance of senior executives against such goals at the year end. Here, the fulfillment of both short term and long-term goals are assessed.

During covid 19, there was strong focus on prioritizing the health of employees within the company. They developed a Business Continuity Plan (BCP) where drills were conducted with select personnel to ensure that employees are well prepared during emergencies. Additionally, they've created an online health portal where employees can update their health conditions. To further nurture employee health, there are counselling services that can be availed by employees. IDLC Ladies Forum (IDLC FL) is a space created for female employees to discuss their concerns openly and to formulate effective strategies that address these concerns.

### **2.3.2 Human Resource Accounting**

Human resource accounting includes utilizing a company's management and employees as human capital. Here, any costs that are tied towards human resources are identified as assets rather an expense in the company's balance sheet. However, IDLC still follows their conventional accounting practices as there are no HR specific accounting standards. They have integrated HR accounting concepts into their decisions by observing cost per employee, expected service life of employees, per capita productivity etc. These observations allow the company to plan out their future investment decisions concerning human resources.

When the economy started recovering from covid in 2021, IDLC also saw an increase in their disbursement volumes. However, their portfolio per employee still fell marginally because they

focused on growing their retail deposits over lower funding requirements. Although, they were able to neutralize the effect by experiencing an increase in their investment income from their capital market operations. This allowed them to experience growth per employee despite undergoing a rise in their operational expenses. However, despite this causing their operating income and gross turnover to rise, they still incurred a 4.02% rise in their operating expense and a 53.1% in their training costs. This was measured on the basis of per employee and so their profit after tax per employee also fell from 1.73 to 1.40 (in BDT Mn) from 2020 to 2021.

## **2.4 Marketing Practices**

### **2.4.1 Existing Marketing programs**

IDLC's marketing strategy often varies according to their target group. Given that their market segment for their deposit products and services mostly comprises of middle-class customers, they focus on building a social media presence. Recently they built a strategic partnership with bKash, the largest mobile financial service provider in the country for their digital savings scheme. This paves the way for more financial inclusion within Bangladesh as more unbanked populations are able to access deposit schemes. According to an article by Future Startup, the savings scheme currently allows monthly installments within BDT 500 to BDT 3000 to be made by the bKash app. This creates more brand awareness about IDLC and trickles down economic benefits towards underprivileged communities.



IDLC continues to innovate their product offering by digitalizing their products, providing more non-financial services and conducting various market research through collaboration within their sales, operations, credit risk management, technology, marketing and customer experience team. Their marketing strategy borders around human engagement. They emphasize values of social and relationship capital within their strategies. Purnota, a product aimed at providing loan packages to women comes with engagement programs that allows clients to network with one another. This allows them to build closer ties with their target group and other key stakeholders. Additionally, IDLC aims to create more sustainable growth through their operations. They do so through their other services such as green banking or refinancing schemes that allow them to achieve SDG goals.

To further enhance their marketing strategy, they've also built a customer experience team that focuses on collecting feedback from customers about their service experiences. This functions through short surveys or calls made to customers to attain valuable information about their concerns.

Post covid, digitalization became a key marketing resource within the company. According to their 2021 annual report, they had reallocated their marketing budget to digital media during covid 19. Additionally, they prioritized more partnerships with multilateral organizations to build strategic connections that allow them to reach their masses.

## 2.4.2 Recommendations for strategic collaborations

While there are already many existing marketing strategies that have transformed IDLC's brand image, there is still scope for more strategic partnerships. With the growing trend of financial technology, more partnerships could be created with other fin tech companies to tap into their customer bases. While the DPS collaboration with bKash has been successful, other companies such as Rocket or Nagad that have experienced growth in their market shares post covid remain good considerations for partnerships. According to an article by 'The Business Standard', Nagad charges about Tk 14.50 against Tk 1000 cash transactions and has also tapped into 60 lakh customers through their collaboration with state-run mobile operator Teletalk. Hence bKash alternative platforms are also gaining more momentum and could be considered for future collaborations. Additionally, as IDLC's core marketing strategy focuses on engagement and awareness, there is scope for greater collaborations with telecommunication companies for advertising purposes. Post covid 19, mobile operators have garnered more presence due to a need for connectivity. They've actively worked with state structures to disseminate more covid sensitive information and have also expanded their product packages to allow more people to use data networks. According to data provided by Bangladesh Telecommunication Regulatory Commission (BTRC), the number of mobile subscribers grew by 6% year on year to 181 million and the number of internet users grew to 123.8 million (Liaquat, 2022). Hence by partnering up with telecommunication companies, IDLC could potentially reach more unbanked populations by promoting their product and service offerings through more SMS or call services. Lastly, I'd suggest that more on-ground campaigning could be done through organizing more community projects by collaborating with NGO's. Many NGO's that have a foothold in various districts could promote financial services provided by IDLC. There is a lack of brand awareness across many districts regarding refinancing schemes and so by fostering more community engagement programs within those areas could allow for more reach.

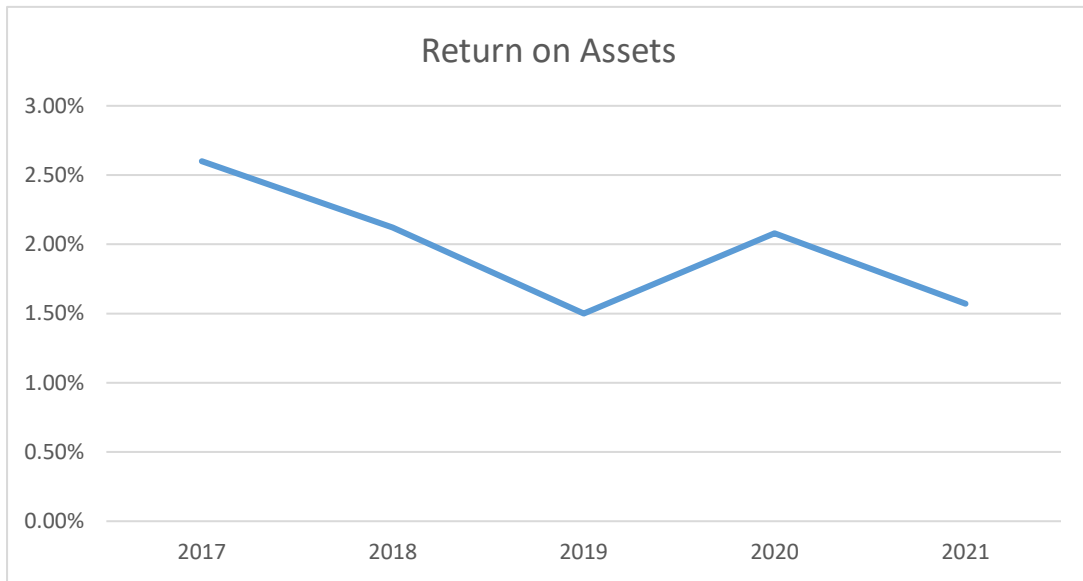
## 2.5 Financial Performance and Accounting Practices

### 2.5.1 Post and Pre covid financial analysis

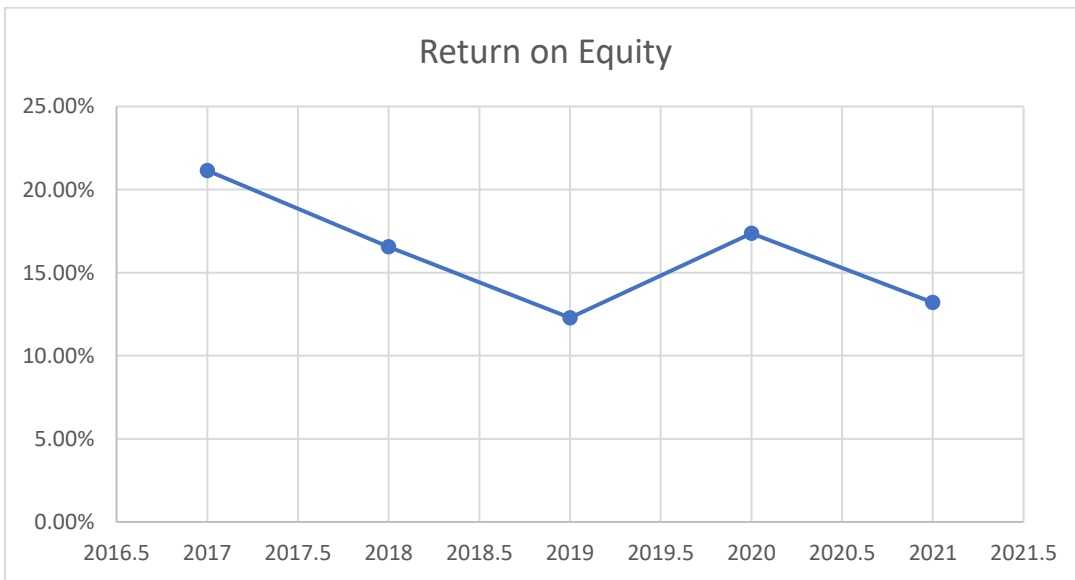
Year	Return on assets	Return on equity
2017	2.60%	21.15%
2018	2.12%	16.55%
2019	1.50%	12.29%
2020	2.08%	17.37%
2021	1.57%	13.21%

*Table 1 ROA and ROE*

Return on assets and return on equity slowly declined in 2021 from 2020. This is partly because net profit after taxation fell from 2205 BDT million to 1576 BDT million. This could be attributed to a fall in profit after taxes. Despite net interest income raising overall total operating income by 4.35%, total operating expense increased respectively by 2.82%. Provisions for loans/investments also reported a 320% rise from 217 BDT million to 910 BDT million which reduced profit before taxes. The provision figure rose because downgrading of classification was lifted which caused more portfolio accounts to be classified. Hence, IDLC attempted to absorb provision requirements beforehand. Once business activities improved in 2021 after lock-downs were removed, the earnings from investment income also increased. However, their other operating income fell because they didn't have massive gains from the sale of government bonds. IDLC also avoided raising their interest expenses by not drastically raising their term deposit portfolio.



*Figure 2  
Return  
on  
assets  
trend*



*Figure 3 Return on Equity trend*

During 2020, lockdowns slowed down growth for the company by reducing profit after taxes because of a fall in their interest income. However, IDLC recovered by increases in their investment income and capital gains from sales of marketable securities. Through greater operational efficiency, they attained a profit before provision of 5.30% in 2021. Additionally due to limitations in lending, IDLC diversified its risks by focusing on government securities that caused operating income to rise by 129.62% as reported by their 2020 annual report. Hence through their subsidiary businesses in investment, brokerage and asset management, they were able to mitigate risks.

Overall, IDLC relies massively on their interest income to compensate for risks and losses in other areas. So, it may be advisable to focus on diversifying their product offering and looking into other ways of improving their other operating come.

## **2.5.2 Accounting**

IDLC prepares their financial statements through a going concern basis following accruals principle of accounting. Currently, they comply with International Accounting Standard (AIS) and International Financial Reporting Standard (IFRS) in their preparation. However, for cash flow statements, they prepare it according to stated market value.

### *Implementation of Basel II framework*

Basel Accord for Financial Institutions (BAFI) is followed by IDLC to mitigate risks by following minimum capital requirements, disclosure requirements and adequacy requirements. Currently, IDLC Finance Limited maintains a capital adequacy ratio (CAR) of 15.27% to fulfil the CAR requirement of 10% by Bangladesh bank. CAR is identified as the capital to risk weighed assets ratio which is helpful in assessing the riskiness of a company. It observes whether the institutions available capital is enough to mitigated its risk weighted credit exposures. From 2020 to 2021, IDLC Finance Limited experienced a fall in its CAR from 14.59% to 15.27%. This is largely attributable to a fall in their eligible capital which includes core capital (Tier 1) and a rise in their risk weighted assets. However, as they incurred a CAR more than 10%, it implies that the company's capital is adequate in mitigating their credit exposures and absorbing losses.

## **2.6 Operations Management and Information System Practices**

IDLC's audit process emphasizes a lot of IT systems due to the plethora of transactions that occur on a daily basis. In response to catering to this problem, they examined the review rights and request changes to systems periodically. They also observed general controls such as logical access, management changes and aspects of IT operational controls to properly oversee authorization. Additionally, they also looked into various interfaces, configurations and application layer controls to further improve audit procedures. Within refinancing, the Bangladesh bank e-refinancing dashboard is used to record SME loan disbursement transactions. This development ensured that transactions are recorded more efficiently.



However, the dashboard can be limiting in terms of adjusting values for data entries which potentially affects the efficiency of corrections.

## 2.7 Industry and Competitive analysis

### Porter's Five Forces analysis:

The industry is characterized with overall high competitive rivalry due to a high number of institutions that provide the same services as IDLC.

1) **Threat of Substitutes:** Institutions that are providing direct financing are growing and they fill in the gap that IDLC taps into. In the instance of commercial vehicle loans, vehicle suppliers receive payments for EMI's on their commercial vehicle loans. Moreover, the growing fintech industry could provide more substitutes for loan products in the market.

2) **Threat of new entrants:** Since the market is already heavily saturated and dominated by many big companies, it is difficult for new entrants to acquire sufficient capital to tap into the market. Additionally, entrants would experience costly barriers to entry given many existing institutions operate in broad geographic areas. Additionally, there would need to be a massive degree of investment into research and development to allow institutions to develop innovative product offering that is distinctly different from competitors. As a result, this creates a low threat for new entrants within the industry.

3) **Buyer Power:** Buyers are able to exercise a lot of buyer power in lieu of rate sensitivity in the market. SME's, mortgage clients, governed corporate entities, conglomerates etc. are highly responsive to changes in rates and thus may shift to other competitor's rates in cases of dissatisfaction. This occurs primarily because of competitive deposit and lending rates that are available in the market. Moreover, the circumstances within the capital market allow specific institutional investors with high net worth to experience moderately high buying power.

4) **Supplier Power:** Supplier power is affected by the availability of supplier of funds in the market. Currently, banks remain the main source of funds and deposits for NBFIs. As NBFIs do not operate transaction accounts, suppliers are able to exert control. Moreover, the activities of the Central bank affect the cost of funds of IDLC. In particular, Refinancing schemes influence supplier power because of their interest rates that are set up by Bangladesh Bank.

Hence, funding is likely to waver according to changes in rates which ultimately impacts the company's supply of available funds.

### **SWOT Analysis:**

1) **Strengths:** The business model of IDLC is very adaptable to changes in the market. They have a massive distribution model to create channel synergy and ensure accessibility. Additionally, they have intellectual capital that's available to develop their key value propositions. Moreover, through their subsidiaries, they've been able to develop multiple revenue streams that creates a risk averse business model.

Moreover, IDLC has developed their human, social and relationship capital to foster better relations with their clientele. They operate branches in various areas of the country which ensures that they can serve clients easily. This also ensures better specialization of products and allows them to build a best customer experience. Lastly, they also have a relatively low cost to income ratio through their software and infrastructural investments that allow them to accomplish process efficiency.

The company has also been able to strongly mitigate their credit risks by creating comprehensive debt servicing facilities that allow them to properly track payments, assess financial capacities and collateral visits. Additionally, they also conduct risk trading, risk transfer, loan restructuring and loan rescheduling to mitigate these risks. With SME refinancing, they provide collateral visits and proper documentation rechecking to mitigate these risks. They assess NPL (non-performing loan) percentages, PAR and provision coverage to evaluate customers.

2) **Weaknesses:** Currently IDLC heavily relies upon interest income to function. However more diversification of income streams is required to acquire financing capital. Additionally, most of IDLC's portfolio is heavily focused within Dhaka and adjacent areas due to a lack of accessible loan portfolios. As a result, more facilities need to be created to reach out to far distribution points. Additionally, there is a also a heavy reliance upon transaction accounts by IDLC which creates a greater need for micro level penetration and diversified product offering.

3) **Opportunities:** There are external factors that influence an organizations ability to gain a competitive edge in the market. Over the years, Digitization in banking has grown with the rise of MFS transactions and new introductions of products that tap into remote areas. In 2021,

average monthly transactions by MFS services in Bangladesh was BDT 64,180 Crore in 2021. This meant that there were growing opportunities to capitalize on technology to create market expansion. Hence there would be more focus on making online deposits accessible and forming more valuable strategic partnerships between fin-techs.

Moreover, there were several regulations introduced during covid 19 upon banks and financial institutions. Regulations included maintaining deposit rates above the inflation rate for specific funds. Liquidity controls were introduced and moratoriums were extended upon loan payments to reduce default rates during the pandemic. Hence these opportunities of a recovering economy could be utilized to ensure more borrowers are reached out to as the economy recovers.

3) **Threats:** IDLC experienced multiple threats that impacted their margins. The pandemic created uncertainty that reduced the ability to accomplish quality portfolio growth. Due to the fall in income, there was less capacity to expand business activities. Moreover, there are market liquidity risks and funding liquidity risks that are threatening to the company. Due to the reliance upon wholesale borrowing, concentrated funding mix and investment in assets with low liquidity, there is an evident liquidity risk in the market. This potentially affects the company's ability to access more liquid funds to meet short term obligations of the company.

Additionally, there are uncertain market conditions that enable default risks and credit risks. At times, borrowers are unable to repay debt due to cash crunches, lack of fund diversification, and external market conditions. This impacts the ability to retain new borrowers and recover funds. In particular, SME's who were affected during covid 19 experienced high default risks. These owners are at times unable to possess adequate collateral and also have poor net worth and are thus likely to default.

### **Competitor Analysis:**

There are over 57 commercial banks and 37 financial institutions in Bangladesh. Gradually, these businesses are expanding their operations and are providing SME oriented services. To observe the competitive environment of the industry, three business's and their services will be observed to analyze the distinctiveness of IDLC's services.

#### 1. **IPDC:**

IPDC is another NBFIs that provides similar financial services that target small/medium

enterprises involved in manufacturing, trading or services. Their SME specific services include:

- Long term finance that is provided to business's to meet various regular capital/fixed expenditures
- Short term finance that is provided to business's to meet their urgent fund requirements for interim periods e.g. for the procurement of raw materials.
- Lease Finance is provided to procure fixed assets e.g. commercial equipment, machinery, generators, vessels etc.
- Work order finance that is provided to execute work orders in a timely manner.
- Women entrepreneur loan services known as 'Joyee'. This targets SME's with women entrepreneurs to help them procure fixed assets, meet capital requirements and expand factory space.

SME & Emerging Corporate portfolio:

Year	BDT mn
2017	8,408
2018	12,395
2019	14,461
2020	16,470
2021	20,198

Table 2 IPDC Portfolio

IPDC experienced portfolio growth pre and post covid and was valued at 20,198 BDT million until 2021. Their portfolio encompasses 30.9% of their total portfolio and they've incurred a growth of 2.4 times. Currently, their market share is 8.9% and they remain a massive competitor in the market. The industry classified loan stood at BDT 117,570 million and comparatively IPDC's classified loan stood at BDT 1,006 million as of September. This represents 0.9% of the industry total.

## 2. LankaBangla Finance Limited:

They offer CMSME products based on customer needs. They aim to propose value in the market through activities such as flexible collateral norms based on client financials, no hidden costs on loan sanctions, mobile alert and email support, working capital limits to support growth plans.

- Ahona (Unsecured loan)

- Biswas (Partial Secured Loan)
- Anonnya (Women Entrepreneur)
- Abash (Loan for Construction Mess)
- Durbar (Commercial Vehicle Finance)
- Somporko (Startup Finance)
- Astha (Fully Secured)
- Swarnali (Agro Processing Industry Finance)
- Ejara (Lease Finance)
- Sorol (Loan Facility against TDR, FDR and MB)
- SME Shikha Sanchoy (A deposit scheme for female customers)
- SME Shikha Obirotto (A Periodic Return deposit for female customers)
- SME Moner Moto Sanchoy (Flexible Term deposit)
- SME Somriddhi (A deposit scheme on different tenures)

SME Emerging and medium businesses are able to avail term loan financing (e.g. industrial term loan, business installment loan, commercial vehicle loan), lease backed financing (e.g. lease, sub-lease, commercial vehicle lease), working capital solutions (e.g. short term loan, distributorship financing).

Under SME financial services, their portfolio of Emerging and commercial services increased by 23% when SME portfolio decreased to BDT 17,678 Million in 2020 which is 1% lower than BDT 17,847 Million of 2019. This dip is likely a result of covid 19.

3.

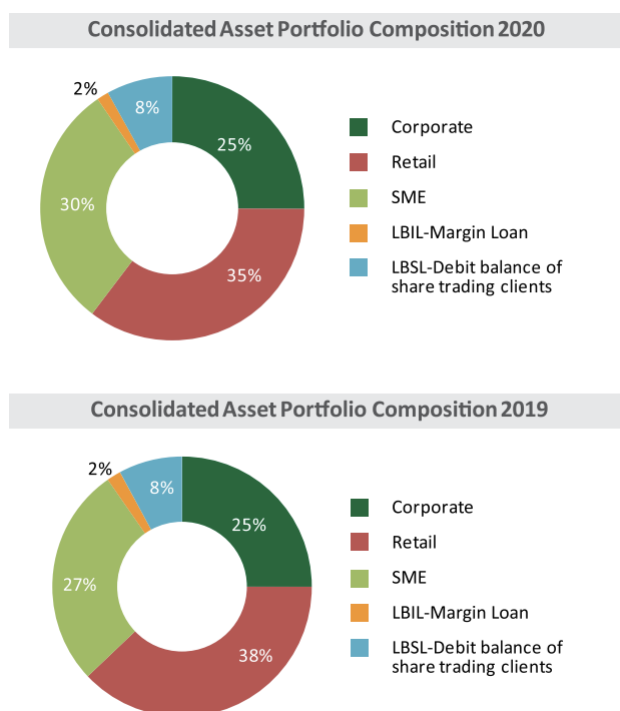


Figure 4 Consolidated asset portfolio comparison

Moreover in 2020, SME loan disbursement of BDT 2,320 million has been made compared to BDT 3,892 million in 2019 which was a 40.4% reduction. SME Liability's core focus on SME deposits has resulted in a portfolio of BDT 4,141 million at the end of 2020 and incurred a growth of 48.3% from 2019 portfolio. Retail liability mobilization for the year was BDT 2,953 million in 2020 due to their marketing efforts. SME loan disbursement in 2021 was around 11% of total disbursement and their SME portfolio contributed to 32% to their total loan portfolio and it stood at 8,005 BDT million in 2020. Comparatively, IDLC incurred SME Disbursement worth 15,291 BDT million in 2020 from 21,486 BDT million in 2019. While their SME Portfolio was valued at 33,648 BDT million in 2020. Overall IDLC had a higher rate of disbursement and portfolio value.

#### 4. BRAC Bank

BRAC bank has one of the largest SME customer bases in the country, with 47% of customer assets being within the SME segment. During the pandemic, they provided one of the highest concessionary stimulus funds to CMSME segments at the rate of 11,851 BDT million in 2021.

Portfolio composition within BRAC Bank (Standalone):

Particulars	Portfolio amounts (BDT mn)	
	2021	2020
SME	47%	49%
Retail	21%	17%
Corporate	33%	34%
Total Loan Book	100%	100%

Table 3 BRAC Bank Portfolio composition

One of the main reasons behind BRAC Bank’s financial stronghold is due to their various SME Banking decisions and strategic collaborations. In particular their MFI financing activities included partnering up with 24 MFI’s for agriculture and rural credit disbursement. Additionally, they conduct supply chain financing where they offer short term working capital facilities to buyers and suppliers. Within their supplier finance facilities, they provide pre-shipment facility, post-shipment facility, dealer/distributor finance etc. Pre-shipment facility includes work order finance under which banks provide loans to suppliers to fulfil confirmed orders from large buyers. Post-shipment facilities include invoice discounting, factoring and reverse factoring where the bank provides loans to suppliers of reputed buyers based on buyer-approved invoices. Lastly, their dealer/distributor finance activity provides loans to distributors/dealers of reputed firms to help them procure finished goods. This has allowed BRAC bank to tap into suppliers and distributors of existing corporate clients within their large corporate department. These services are similar to what IDLC provides currently.

BRAC bank also has conducted numerous collaborations to reach out to various market segments. Some of those partnerships include:

- SME Bondhu: BRAC bank and Sheba Platform signed an agreement for the purpose of MSME inclusion. Sheba Platform will provide their revolutionary managerial solution which allows

SME's to operate online. This benefits their SME customers who will receive a 5% discount on subscription and allows women banking TARA customers to use those services for free.

-GlobalLinker Partnership: This collaboration with GlobalLinker, a leading business networking platform for SME's allowed BRAC bank's customers to receive support for their digitalization needs. SME's can be easily discovered by their patented digital business card and allows them to operate their e-commerce platforms.

These collaborations have currently allowed BRAC bank to tap into the growing need for SME digitalization which is similar to the goals of IDLC. As a result, BRAC bank is a one of the fiercest competitors in the markets in lieu of their collaborations that allow them to have greater market reach.

Overall this competitor analysis would recommend that more collaborations that ensure greater digitalization prospects. Additionally, more focus is needed to help guide SME's with more managerial solutions for their company.

## **Chapter 3: Project Part**

### **3.1 Introduction**

#### **3.1.1 Background/Literature Review**

SME's play an immense role in the economic growth of Bangladesh. Within Bangladesh, SMEs contribute to approximately 20-25% of GDP (Chowdhury, Azam, & Islam, 2013). High interest rates from private commercial banks, foreign direct investment, nationalized commercial banks, NBFIs etc. have impeded their ability to finance their business. Once covid 19 hit the economy, the SME sector experienced a rise in new challenges with staples rising by 15-20%. As a result of this, Bangladesh Bank introduced refinance schemes worth 10.0 billion BDT for banks and FI's against their loans to SME's (Alam & Ullah, 2006). These refinance programs were targeted towards helping SME's access necessary credit for the purpose of business expansion, working capital or buying machinery or equipment. This allows Bangladesh bank to bear the cost of loan administration and thereby allowing Banks and FI's to provide loans at lower interest rates without affecting their spread. Additionally, by working with agreements with AIIB and ADB, they are able to acquire more funds that work for the purpose for economic growth and helping many covid struck SME's (CMSME's) recover.



Existing papers focus upon the impacts of SME financing as a whole and Bangladesh Bank's role within it. However, there is limited cumulative analysis pertaining to SME refinancing's impact exclusively. Moreover, disbursement trends have altered post covid and affected the entire financial landscape as a whole. Hence those trends will be observed to further assess ways by which SME refinancing can play a greater role in limiting the financing gap that currently exists for CMSME's.

### **3.1.2 Objectives**

Refinance schemes within IDLC are allocated towards six key areas – Stimulus, JICA, ADB, AGRO, New Entrepreneur, WEL (Women Entrepreneur loan). Each area has contributed has generated growth and employment for the Bangladeshi economy as a whole. My research will aim to observe ways by which these schemes have uplifted underprivileged communities especially during the pandemic. It will ask whether refinance schemes have been a viable way by which these covid struck business's access credit and the impediments that may persist. While there is existing research on how the contributions of refinancing upon SMEs (Small and Medium Sized Enterprises) as a whole, my research will delve deeper into the role that NBFI's such as IDLC Finance limited can play while analyzing the specific impacts in a broad range of areas in a post pandemic environment. Moreover, there is limited analysis regarding SME loan disbursement trends reported by Bangladesh. Hence to provide more extensive analysis, I will aim to observe that dataset to note which sectors have been affected more to further add to the discussion of the impacts that SME refinancing can offer to developing countries.

Key questions:

1. What tangible impacts could be created upon covid struck SMEs by Refinancing schemes?
2. What is the scope for SME Refinancing in the market?
3. What obstacles impede the ability to access alternate financing schemes?

### **3.1.3 Significance**

SMEs within Bangladesh often face many barriers in accessing financing capacities because of their poor credit ratings, lack of collateral and limited financial literacy. Dairy farmers within

Bangladesh lost around 189 million during the lockdown and got affected by the uptake in prices of daily commodities. As a result of this, Bangladesh Bank’s refinance scheme helps financial institutions and banks provide loan facilities and reduced disruptions in the path towards economic recovery. Many businesses who were able to prove that their business was affected drastically during lockdown periods were granted reductions in their interest rate. This enabled many SMEs to survive economic hardship. Moreover, as CMSMEs contribute to approximately 25% of the total labor force and account for 30% of GDP, they play a key role in Bangladesh (Aziz & Siddique, 2016). Hence given the significant influence SME’s play in Bangladesh, analyzing the way in which refinancing has affected their business will provide more context into assessing and finding new ways of raising credit availability. Additionally, the impact on post and pre covid Bangladesh will be observed to note the degree of impact. Greater analysis will be directed towards analyze the current circumstance of SME loan disbursements within Bangladesh to note down patterns and changes within outstanding loan amounts, recovery amounts and sector growth and it will be contrasted with post and pre covid circumstances.

### Finance Gap in SME (in USD, million)

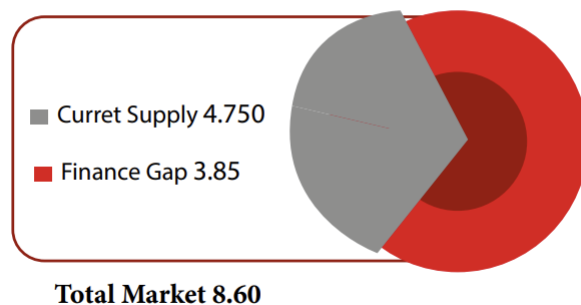


Figure 5 Finance gap in the SME market

Source: IDLC annual report 2021

Overall, this report will cumulatively observe trends that can aid existing discussions regarding SME financing. Currently, there is a massive financing gap worth 3.85 million USD in the market indicating that more SME financing alternatives need to be observed. SME refinancing is a feasible way by which this financing need can be met. However, patterns with outstanding loan disbursements and growth in SME portfolios need to be observed to analyze its future prospects. Additionally, this report will further examine pandemic specific causal analysis to

ensure more insight is provided towards dissecting reasons behind defaults and refinancing problems.

## 3.2 Methodology

All of the information collected for the report is secondary data that was primarily taken from websites of the Bangladesh bank, IDLC, IFC and World Bank. Additionally, the annual reports of IDLC finance limited played a crucial role towards observing the overall company's financial performance. The IDLC Monthly Business Review Magazine that's published online was also critically analyzed to observe SME specific data. Lastly, I used external books, journals, periodicals and newspapers for statistical analysis purposes. Since SME refinancing is a relatively niche topic that only a limited number of individuals have worked and as many SME's many not be aware of refinancing, secondary data was primarily used in this report to collectively assess the impact provided by SME refinancing.

## 3.3 Findings and Analysis

### 3.3.1 Overview of Refinancing

Refinancing schemes were constructed for the purpose of enabling credit facilities for CMSME's. Through the refinance scheme provided by Bangladesh bank, banks and FI's can avail it at the bank rate (at present 5%) within the SME sector. Refinance schemes function through funds provided by entities such as Bangladesh Bank, IDA, Asian Development Bank (ADB). Funds are allocated according to various objectives of these entities. Due to this, Bangladesh fund prioritizes allocating funds under refinance schemes towards manufacturing and service sectors to foster more employment and economic growth within the country (Bank, n.d.). Additionally, women entrepreneurship is a key objective that Bangladesh bank wishes to fulfil through their refinance schemes. As a result, at least 15% of the total BB refinance fund for the SME sector has been allocated towards women entrepreneurs. This allows banks and FI's to then offer loans to women entrepreneurs at a bank rate of 5% and not more than 10% per annum.

#### Target of SME Credit Disbursement:

Banks and financial institutions	Target (crore)	%
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State-owned Commercial Banks	3897	16%
Specialized Banks	600	3%
Private commercial Banks	17478	73%
Foreign Commercial Banks	707	3%
Non-Bank Financial Institutions	1313	5%
Total	23995	100%

Figure 6 SME Credit Disbursement targets

Source: Bangladesh Bank SME Credit Policies & Programs

The table above indicates the SME credit disbursement targets set up by Bangladesh Bank for different financial sectors. Private commercial banks have the largest targets of 73% due to adequacy of funds, while NBFIs altogether have a 5% target.

Till 2021, the SME disbursement target for IDLC was 20,455 BDT million as mentioned in their annual report. It's evident that SME disbursement was gradually rising from the years 2017 to 2019 and then experienced a dip in 2020. It's indicative of the fact that covid 19 has caused their disbursement amounts to fall. This is because external factors such as lockdowns caused disbursement collection slowdowns and reduced financial growth of various CMSME's.

However, they recovered in 2021 and experienced a 33.77% increase in their SME disbursement figure. This recovery was done by reducing exposure to clients that have greater risk of defaulting. Overall, this mitigated their credit exposures and ensured faster collection of debt. As the economy was slowly recovering post 2020, there was greater capacity to raise disbursements. This is why IDLC was able to provide low-cost stimulus funds to CMSME clients. Additionally, to mitigate vulnerabilities arising from covid 19, they developed their online service portal called OCAS (Online Credit Appraisal System) and mobile app to create smoother operations. Moreover, they collaborated with e-commerce and f-commerce platforms to further reach out to customers.

Year	SME Disbursement (BDT mn)	Percentage change
2014	12,053	
2015	15,656	29.89%
2016	14,916	-4.73%
2017	18,099	21.34%
2018	19,449	7.46%

2019	21,486	10.47%
2020	15,291	-28.83%
2021	20,455	33.77%

Table 4 IDLC SME Disbursement trend

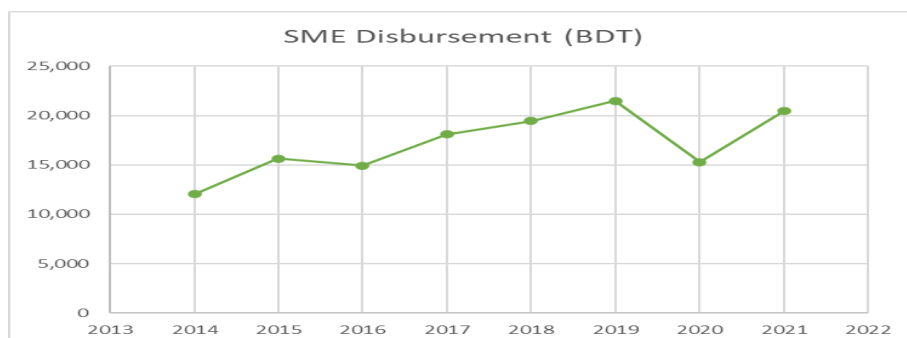


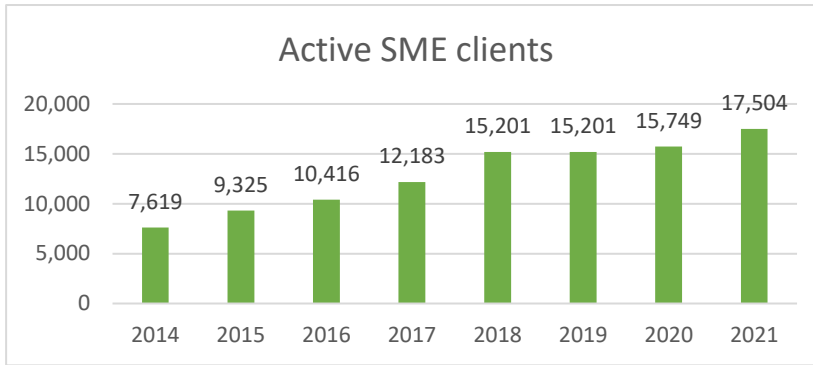
Figure 7 SME Disbursement trend

Source: IDLC annual report 2021

### 3.3.2 Company background financial analysis

Year	Number of active SME clients	Percentage change
2014	7,619	-
2015	9,325	22.39%
2016	10,416	11.70%
2017	12,183	16.96%
2018	15,201	24.77%
2019	15,201	0.00%
2020	15,749	3.61%
2021	17,504	11.14%

Table 5 IDLC % change in SME client base



Source: IDLC annual report 2021

Figure 8 Growth of SME client base

IDLC Finance Limited witnessed a growth in their SME client base from 2020 to 2021. This was a massive uptake as their client base grew slowly during the period 2019 to 2020. The uptake is attributable to towards more on ground campaigning.

SME Portfolio trend:

Year	BDT	Percentage change
2014	17,905	
2015	22,368	24.93%
2016	26,054	16.48%
2017	30,851	18.41%
2018	34,687	12.43%
2019	31,318	-9.71%
2020	33,648	7.44%
2021	33,505	-0.42%

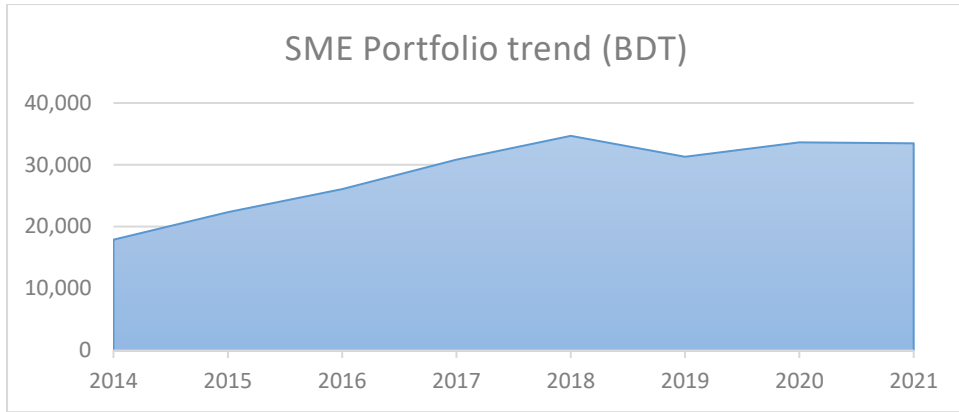


Figure 9 SME Portfolio trend

Moreover, IDLC witnessed a marginal fall in their portfolio composition in its SME segment. This is because SME business struggled during the pandemic causing a small dip in their portfolio level.

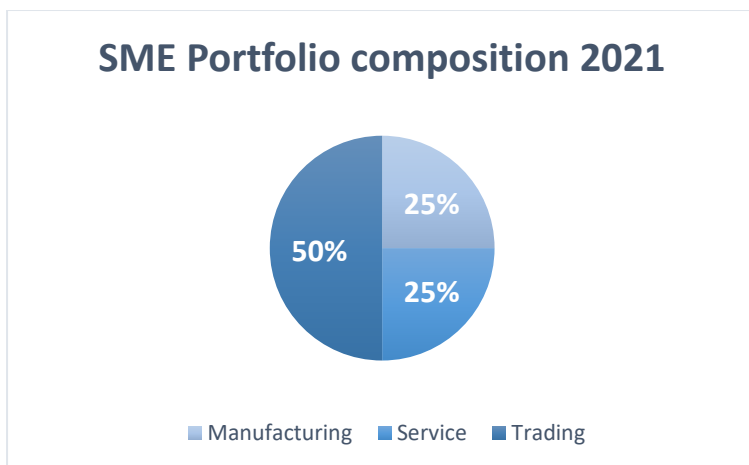


Figure 10 SME Portfolio Composition for the year 2021

Sector	2020	2021
Manufacturing	24.61%	25%
Service	26.58%	25%
Trading	48.81%	50%

Table 6 IDLC SME portfolio composition

IDLC gained more clients from its trading sector in 2021 and experienced a fall in its client base within the manufacturing and service sector. Overall, the dip was very marginal because

they recovered by expanding operations in their trading segment. It could also be observed that trading has a relatively higher percentage of the portfolio because of the quantity of trading activities within the country. It's reported that more than 87 and 94 percent of micro and small enterprises operate in non-manufacturing services which mostly consists of trading (World Bank Group, n.d.-a).

### 3.3.3 Situational Industry Analysis

SME Category	CMSME Outstanding (Male)	CMSME Outstanding (Female)
Cottage	1732.64	191.78
Micro	23980.68	1516.87
Small	133530.85	4874.86
Medium	82975.86	3278.57

Table 7 Outstanding for male owned CMSME's

Source: Bangladesh Bank SME Portal quarterly report

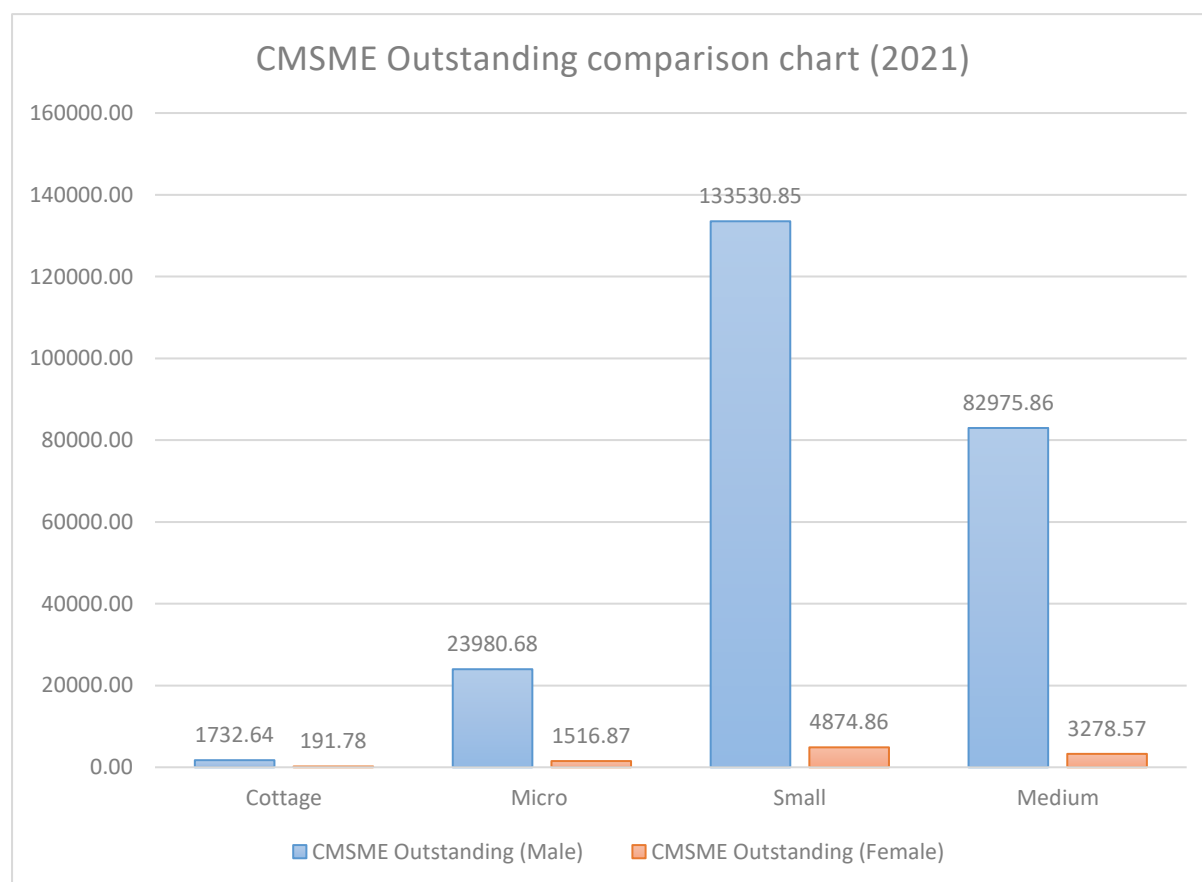




Figure 11 CMSME Outstanding loan trend via gender

Comparing outstanding amounts on loans between male and female owned CMSMEs indicate that male CMSMEs collectively had more outstanding amounts. This is largely because of a greater amount of disbursement that's given out to male owned SMEs. Cumulative disbursements actually increased in 2021 for male owned SME's as well. The disproportionate degree of disbursements towards male owned SME's is because of many structural barriers faced by women in running and leading their own businesses. Hence, there's a greater need to prioritize reaching out to female owned CMSME's through accessible financing schemes given the massive difference in disbursements.

Male		
SME category	Cumulative CMSME disbursement 2020 (crore BDT)	Cumulative CMSME disbursement 2021 (crore BDT)
Cottage	899.74	1806.21
Micro	18037.84	21518.35
Small	85616.17	107054.69
Medium	43422.40	48247.14

Table 8 Male Cumulative CMSME disbursement trend

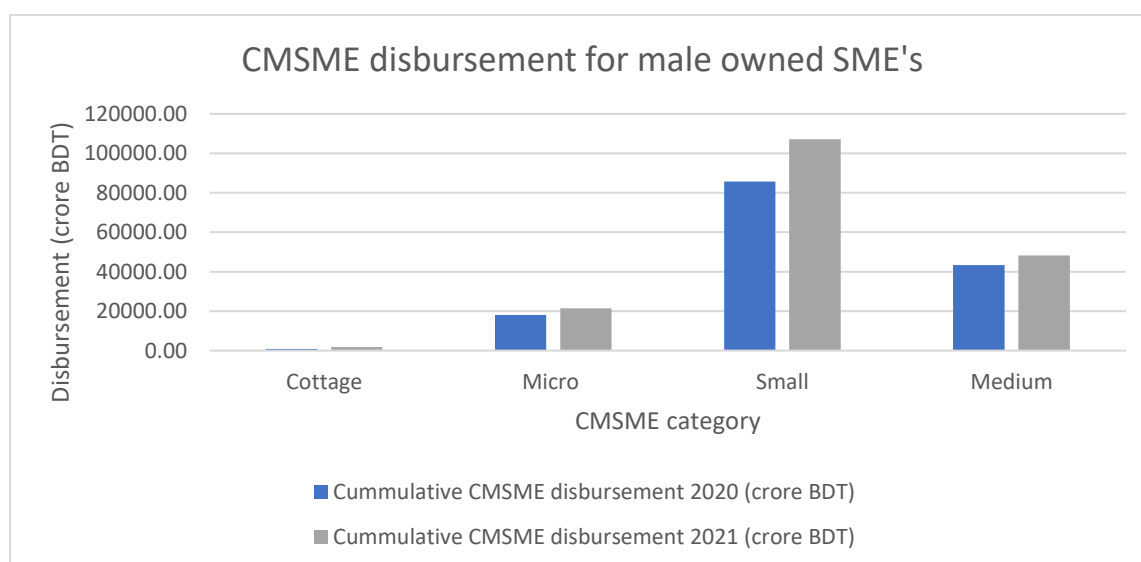


Figure 12 CMSME disbursement growth (male)

Female		
SME category	Cumulative CMSME disbursement 2020 (crore BDT)	Cumulative CMSME disbursement 2021 (crore BDT)
Cottage	176.44	259.91
Micro	994.04	1383.92
Small	2888.46	3753.59
Medium	1306.12	1404.67

Table 9 Female Cumulative CMSME disbursement trend

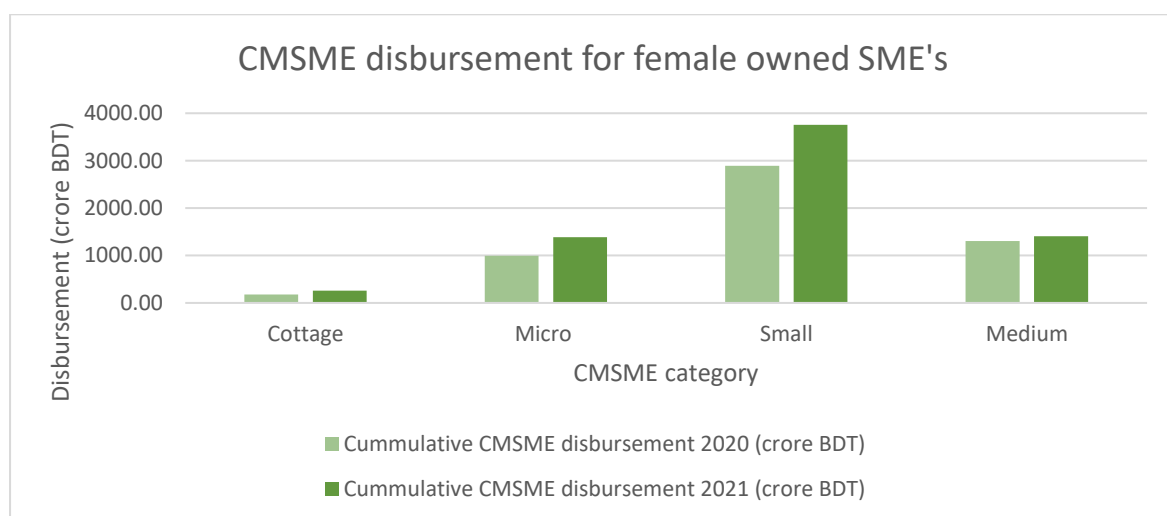


Figure 13 CMSME disbursement (female)

SME category	Recovery amount 2021 (Male)	Recovery amount 2020 (Male)
Cottage	1124.88	2361.75
Micro	18722.36	23268.50
Small	101157.55	90425.10
Medium	44108.69	28404.34

Table 10 Recovery loan amount (male CMSME's)

Source: Bangladesh Bank SME Portal facts and figures

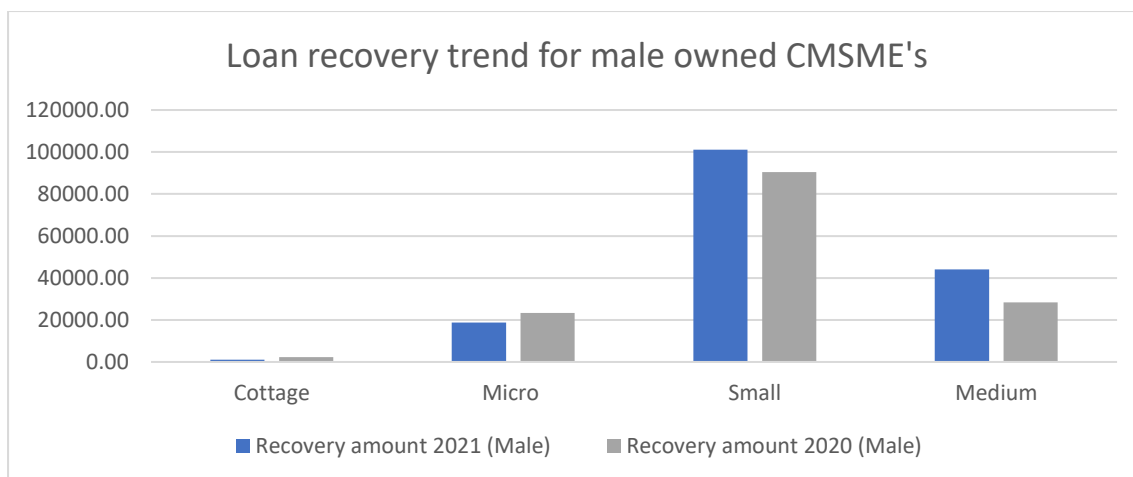


Figure 14 Recovery amount trend (male CMSME's)

This chart indicates that recovery amounts gradually fell for cottage and Micro sectors with male owners. While it grew for small and medium sectors. This is largely because cottage and micro sectors have less safety nets that they can cushion their financial losses on. Hence covid 19 disproportionately affected them over small and medium sectors. This is concerning given that 93.6% percent of SME's are small and only 6.4% of SMEs are medium (Rahman, 2015). Thus, there's a large degree of SME's that struggled in paying off their outstanding. Comparatively, female owned CMSME's cumulatively had an increase in the amount that can be recovered from their debt. This could be because disbursements cumulatively are much less for female owned businesses and because of economic recovery post lockdown.

Sector	Recovery amount 2020 (female)	Recovery amount 2021 (female)
Cottage	335.65	410.11
Micro	946.06	1290.70
Small	2339.94	3196.39
Medium	1746.81	1719.33

Table 11 Recovery loan amount (female CMSME's)

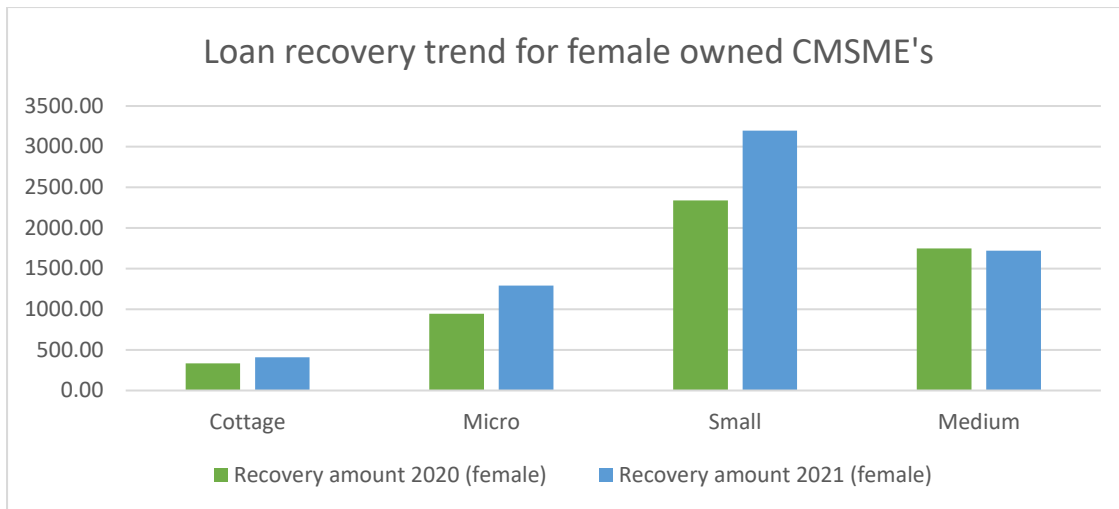


Figure 15 Recovery amount trend (female CMSME's)

However, the rise in outstanding loan amounts and the fall in recovery figures for male enterprises that considerably dominate the market could potentially be concerning. It has been reported that domestic private commercial banks account for 76% of total outstanding MSME loans and public commercial banks account for 19% of total outstanding MSME loans (World Bank Group, n.d.-a). In particular, MSME loans account for 27% of the portfolio of domestic private commercial banks. To further corroborate the analysis that indicates the riskiness of the industry as a whole, The World Bank reports that NPL (Non-performing loan) rates for SME loans increased particularly in state-owned banks experienced.

It's been reported that NPL ratios for banks and NBFI's have a nominal presence. NPL ratios indicate the likelihood of late repayments by borrowers which affects the profitability of banks and financial institutions and could potentially create enhanced perceived nature of risk upon some industries. Observing the NPL ratio of IDLC shows that they've also experienced a gradual increase of it over the years.

Year	NPL (%)
2017	2.77
2018	2.2
2019	3.07
2020	1.79

2021	3.05
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Table 12 IDLC NPL ratio trend

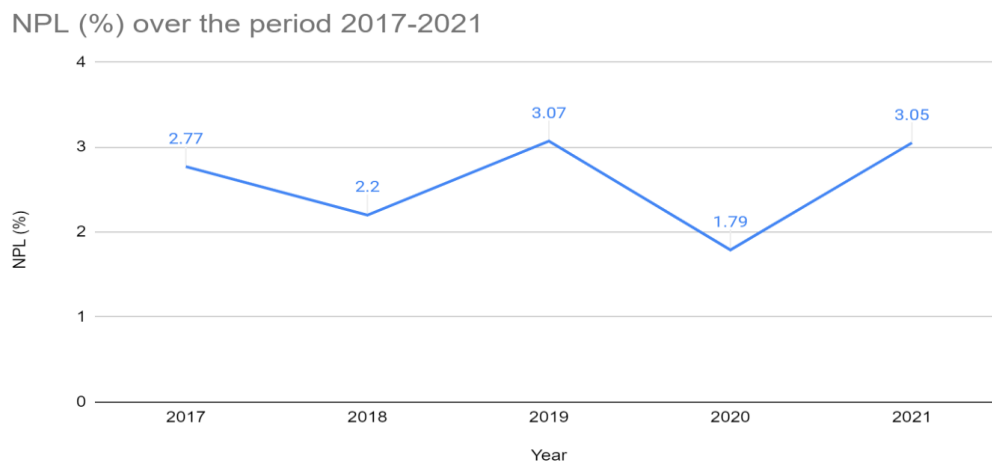


Figure 16 NPL ratio trend

Source: IDLC Annual Report 2021

NPL ratios partly rose in 2021 because the company had limited opportunities to provide deferral facilities and provided it to only 8% of their total accounts. In the past, they've been able to mitigate the risk of NPL ratios by providing risk adjusted business opportunities within specific niche market segments. Albeit, the rise of the NPL ratios in a period where the economy was recovering from covid could be construed to be concerning. While this could corroborate the rise in NPL ratios in the overall industry for MSME market segments, the tieback to IDLC heavily relies upon the impact left by the degree of portfolio composition of its SME segment.

### Regression analysis

A regression analysis was conducted with the 60 data inputs that includes the outstanding loan amounts for various SME categories which is classified by gender. This was performed to provide gender disparity analysis and note whether female owned SME's struggled more in paying off dues. The data set which is provided in [Appendix A](#) contains figures from various years and was collected from the official SME facts and figures page of the Bangladesh Bank website.

Categorical variables e.g. male and female were used as independent variables or predictors of CMSME outstanding amounts on loans. Here dummy variables were used to code the

categorical variables into SPSS for regression analysis. Male was given the figure of 0, while female was given the figure of 1. Male is the reference category.

Gender is placed as the independent variable. While CMSME outstanding was categorized as a dependent variable and labelled as 'Outstanding'. This regression analysis is intended to assess whether gender plays a role in the outstanding amounts from loans. It's analyzed to indicate whether more female run SMEs struggled in paying off their loans that were disbursed by Bangladesh bank and whether they collectively had more outstanding balances. This analysis could crucially prove whether the likelihood of default rates is higher comparatively for women run SME's and would be tested as:

**Hypothesis:**

H0 (Null hypothesis): Gender identified as 'female' is not a predictor of outstanding values from CMSME loan disbursements.

H1 (alternate hypothesis): Gender identified as 'female' is a predictor of outstanding values from CMSME loan disbursements.

To test statistical significance,  $\alpha = 0.05$  is observed as the significance level. Given that the p-value is less than 0.05, it implies that the test hypothesis should be rejected. Hence there is strong evidence to reject the null hypothesis. This means that gender is a predictor of outstanding values for CMSME loan disbursements.

**T-test analysis:**

Degrees of freedom,  $n-2$  ,  $60-2 = 58$  degrees of freedom. Hence critical values are +2.0017 and -2.0017. Hence rejection regions are  $t\text{-value} > +2.0017$  and  $t\text{-value} < -2.0017$ . As t-values are 9.260 and -6.331, they both fall under rejection regions which implies that the null hypothesis should be rejected. This is consistent with the results of the significance level.

## Regression

[DataSet2]

### Variables Entered/Removed<sup>a</sup>

Model	Variables Entered	Variables Removed	Method
1	Gender <sup>b</sup>	.	Enter

a. Dependent Variable: Outstanding

b. All requested variables entered.

### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.639 <sup>a</sup>	.409	.398	48656.19240

a. Predictors: (Constant), Gender

### ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94898988331	1	94898988331	40.085	<.001 <sup>b</sup>
	Residual	1.373E+11	58	2367425058.8		
	Total	2.322E+11	59			

a. Dependent Variable: Outstanding

b. Predictors: (Constant), Gender

### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	82528.269	8883.365		9.290	<.001
	Gender	-79539.922	12562.975	-.639	-6.331	<.001

a. Dependent Variable: Outstanding

Figure 17 Regression analysis on SPSS

$$Y = b_0 + b_1 * x$$

It forms the equation:

$$\text{Outstanding} = 82528.27 - 79539.922 * \text{Gender}$$

B1 is the slope that identifies the difference between male and female. Here b would be the difference in outstanding amounts.

R square (coefficient of determination) identifies what percentage of the variation in y (outstanding) is described by the variation in x (gender). R square is 0.409 and so it indicates that 40.9% of the data fits into the regression model. It's considered a moderate fit because it implies that 40.9% of variation can be explained and that the points are not too far from the trend line. R square would have to be higher than 60% to have a stronger effect. This implies that some of the variation is still unexplained by the variation within x. Thus, it implies weak correlation.

Moreover, a standardized beta coefficient of -0.6 observes the strength of the independent variable to the dependent variable. Currently, the beta coefficient is moderate as it would require a value closer to -1 for it to be considered strong. As of now, the beta coefficient implies that for every 1 unit increase in the predictor variable (gender), the dependent variable 'outstanding' will decrease by the beta coefficient value.

However, it's to be noted that the standard of error is concerning and could indicate that is variation within the existing data set. A greater sample size would perhaps reduce randomness and make more conclusive remarks.

### **3.3.4 Scope and Impact of Refinancing**

Refinancing schemes are constructed for the purpose of enabling credit facilities for CMSME's. Through the refinance scheme provided by Bangladesh bank, banks and FI's can avail it at the bank rate (at present 5%) within the SME sector. Refinance schemes function through funds provided by entities such as Bangladesh Bank, IDA, Asian Development Bank (ADB). Funds are allocated according to various objectives of these entities. Due to this, Bangladesh fund prioritizes allocating funds under refinance schemes towards manufacturing and service sectors to foster more employment and economic growth within the country (Bank, n.d.). Additionally, women entrepreneurship is a key objective that Bangladesh bank wishes to fulfil through their refinance schemes. As a result, at least 15% of the total BB refinance fund for the SME sector has been allocated towards women entrepreneurs. This allows banks and FI's to then offer loans to women entrepreneurs at a bank rate of 5% and not more than 10% per annum.

This mitigates challenges banks and FI's face in providing loans at accessible rates. Small entrepreneurs are viewed to be very risky and raise concerns of high operating costs. Even



prior to covid 19, MSME's were labelled as high-risk borrowers due to their low capitalization, mortality rates and lack of sufficient assets to mitigate concerns of risk (World Bank Group, n.d.-a). As banks also heavily relied on collateral based lending and extended credit to enterprises on the basis of fixed asset ownership, there was a greater need for paving ways to help these business's access finance. The lack of finance systematically existed because of the regulatory business environment. Most small enterprises do not have immovable assets to use as collateral because of limited availability and lack of conducive regulation to support movables-based lending. Additionally, there is an information gap in the market that prevents people from properly understanding secured lending reforms. This further raises the degree of risk of extending finance to these enterprises. As a result, banks and financial institutions commonly move towards providing finance to larger enterprises with bigger brand names to list on their loan portfolio. Additionally, the uncertainty and perceived risk of default within the MSME segment further creates this obstacle.

Moreover, going back to the regression analysis provided in figure 15, if gender could also be a predictor of outstanding amounts on loans, it could be because of structural barriers faced by women SME entrepreneurs in growing their business. Low levels of education and training, poor health and limited access to resources taint their ability to avail financing abilities to grow their businesses. In fact, survey findings report that only 52% of respondents consisting of women-owned businesses in Bangladesh are able to access collateral because of patriarchal inheritance laws (Singh et al., 2016). Most of these women rely significantly upon internal structures such as savings or familial support to finance their capital needs. A lack of access to collateral prevents women from accessing assets that could allow them to expand their businesses. As a result, this discourages women from setting up enterprises productively. This also leads to less disbursements being allocated towards women-owned SMEs overall because of the perceived nature of risk. While NBFI's and banks have set up structures such as women branches and training facilities to help women entrepreneurs, there is still a massive financing gap of Tk 6007 crores.



Figure 18 Fund requirement and financing gap

Source: World Bank

The financing gap is furthered because of the perceived risk of default of women SME entrepreneurs. Despite refinancing schemes allowing more women to avail loan facilities at cheaper interest rates, there are certain metrics that have to be met by SME's to be eligible for schemes such as WEL (Women Entrepreneur loan). Comprehensive background checks have to be done to check to note whether the business is truly owned or run by women. At times many SMEs are not owned solely by women due to financial limitations and so such businesses are not able to avail lending facilities. Since approximately 66% of women entrepreneurs rely on male family members to maintain their business (Singh et al., 2016), many remain untrained and are unable to grow their business effectively. The lack of financial literacy deters many banks from raising their disbursements.

There has also been evidence to prove that women SME entrepreneurs experience limited growth in their businesses because they're focused within lesser profitable sectors such as retail, sales and service sectors in textile and personal service industry (Singh et al., 2016). While participation within high growth sectors such as pharmaceuticals and health care has been comparatively limited.

### Post covid impact

However, refinance schemes that provide collateral free loans to women owned SMEs allow them to access credit without the risk of default. As banks and FI's usually require collateral to protect their margins, they are able to mitigate risks by collaborating with Bangladesh bank to provide such refinance schemes.

IDLC purnota is one of IDLC’s product offering that provides women led CMSME’s access refinancing facilities. It can be observed that they massively grown their purnota portfolio over the years which indicates a massive impact upon thousands of its clients. It kept growing in 2020 despite the effects of covid. This indicates the growing demand for these facilities especially under deteriorating economic circumstances.

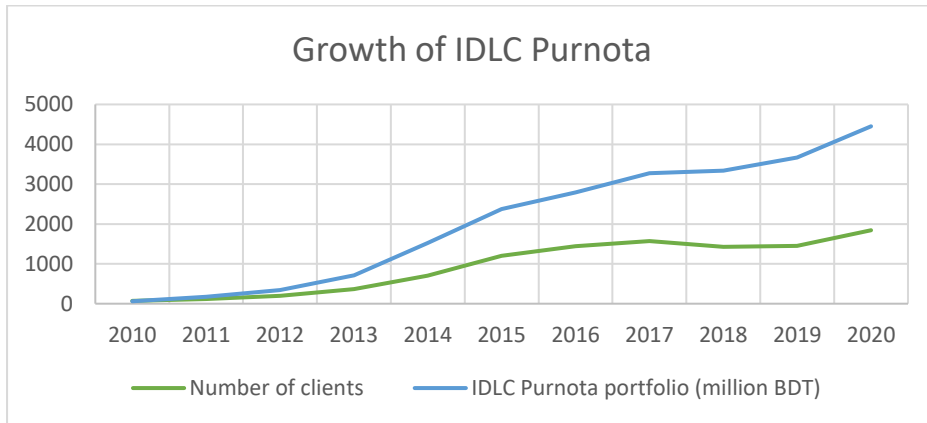


Figure 19 IDLC Purnota client and portfolio growth

Refinancing schemes are provided across various categories. Other than women entrepreneur loans, they are also there for stimulus packages, Agro based businesses, JICA, New entrepreneurs.

The pandemic interrupted supply chains and drastically affected rural businesses. Approximately 96% of MSME’s experienced a fall in their income due to decreasing demand. Service based businesses and retailers especially struggled because they sold non-essential items that incurred declining demand during the pandemic. According to a survey conducted by LightCastle Partners and Sheba xyz, 52% of SME’s, especially one’s within the service sector required soft loans to meet their operational capital demands. Additionally, 18% of respondents required working capital loans to mitigate their liquidity crisis. Hence, there’s a massive need in the market for alternate financing packages.

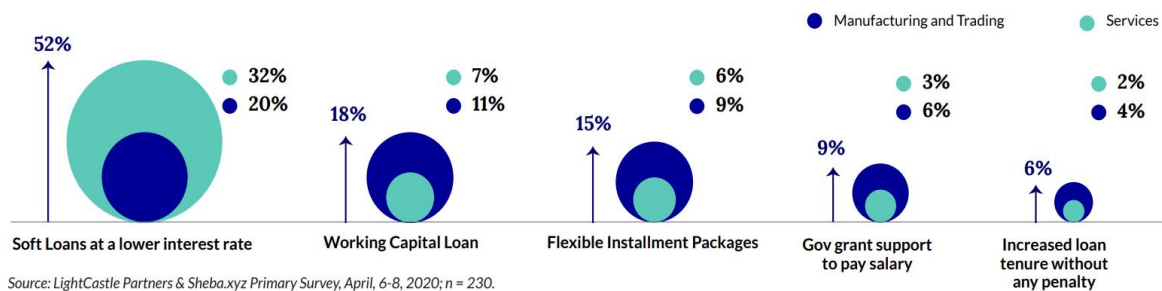


Figure 20 Loan needs of various MSME segments

During covid 19, many SME's required stimulus packages that met their looming working capital needs. Hence 'Stimulus' refinance packages were introduced by Bangladesh bank at 9% interest. Borrowers would pay 4% interest and the government would pay the remaining as subsidy under the condition that the loan is repaid within one year (Centre for policy dialogue, 2020). This was mainly aimed to aid struggling CMSME's during covid so that they can finance working capital to maintain their business operations.

Thus, there was a large effect upon CMSME's due to covid and it resulted in a greater need for financial capabilities. There was greater pressure looming on businesses to pay off their working capital and plan business expansions. Refinancing was able to mitigate a lot of the concerns pertaining to these issues. However, since specific groups and sectors appeared to have struggled more disproportionately during covid, there needs to specific focus placed upon ensuring refinancing capacities are more accessible to these groups.

### **3.4 Recommendations**

There are many constraints that CMSME's face when applying for refinancing facilities. About 38% of MSME's are not formally registered and may not have valid trade licenses and a tax identification number that is required for them to avail stimulus funds provided by refinance schemes (MicroSave Consulting, 2020). Hence these businesses are not able to follow through the rigorous documentation procedure due to these impediments. Thus, more emphasis needs to be provided in preparing simplified guidelines that allow these people to access loan facilities. Additionally, more agreements need to be formalized that allow these very small enterprises to avail facilities without all of the documentation barriers.

Moreover, most MSME's do not have a large social media presence which may create more information gaps. A survey conducted by MicroSave Consulting (MSC) reports that only 9% of businesses use digital media for marketing and communication. Hence there needs to be strategies conducted towards reaching out to such MSME's. Moreover, most of IDLC's portfolio is concentrated within Dhaka and adjacent areas, so many SME's operating in the outskirts of Dhaka is still untapped. Given that there are about 60 to 65 percent of all SMEs that are located outside the metropolitan areas of Dhaka and Chittagong (Rahman, 2015),

there is a massive untapped market segment. NBFIs such as IDLC could then develop more marketing strategies and form strategic partnerships that allow them raise their market reach and awareness.

Most MSME's still utilize cash in conducting business activities with suppliers, vendors and transporters over digital platforms. Hence, they may not be familiar with using bank statements and other financial digitalization processes. Thus, more training needs to be focused helping these CMSME's digitalize through closer cooperation with various partners such as education technology companies, e-commerce platforms. In conclusion SME Refinancing has a lot of scope for aiding SME's that are yet to be accessed. Given the limitations that alternate financing options provide, especially for female owned SMEs, Growing SME Refinancing schemes provide accessible alternatives that are still in need.

### 3.6 Appendix A (data)

Regression analysis data-set:

SME Category	CMSME Outstanding Amount	Gender	code
Cottage	1732.641348	Male	0
Micro	23980.68003	Male	0
Small	133530.8452	Male	0
Medium	82975.85909	Male	0
Cottage	1062.553435	Male	0
Micro	23051.66943	Male	0
Small	122982.9785	Male	0
Medium	81292.70624	Male	0
Cottage	191.7750861	Female	1
Micro	1516.867563	Female	1
Small	4874.85868	Female	1
Medium	3278.565024	Female	1
Cottage	130.7287833	Female	1
Micro	1605.834562	Female	1
Small	4437.404045	Female	1
Medium	2861.213816	Female	1

Cottage	2402.89	Male	0
Micro	34360.42	Male	0
Small	227149.05	Male	0
Medium	148402.83	Male	0
Cottage	2213.55	Male	0
Micro	33534.05	Male	0
Small	186295.72	Male	0
Medium	120182.24	Male	0
Cottage	6202.79	Male	0
Micro	41507.19	Male	0
Small	170256.56	Male	0
Medium	165265.34	Male	0
Cottage	3520.42	Male	0
Micro	28732.23	Male	0
Small	128092.47	Male	0
Medium	166298.81	Male	0
Cottage	11106.84	Male	0
Micro	20163.27	Male	0
Small	112543.72	Male	0
Medium	137728.06	Male	0
Small	121632.75	Male	0
Medium	137646.93	Male	0
Cottage	253.95	Female	1
Micro	2979.01	Female	1
Small	7442.78	Female	1
Medium	5482.53	Female	1
Cottage	262.79	Female	1
Micro	2453.56	Female	1
Small	5934.9	Female	1
Medium	3891.26	Female	1
Cottage	308.81	Female	1
Micro	2396.71	Female	1

Small	4953.69	Female	1
Medium	3986.03	Female	1
Cottage	282.32	Female	1
Micro	1476.3	Female	1
Small	4363.22	Female	1
Medium	5058.37	Female	1
Cottage	268.88	Female	1
Micro	1331.24	Female	1
Small	3733.27	Female	1
Medium	5256.24	Female	1
Small	4771.62	Female	1
Medium	3865.67	Female	1

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