



SME Financing and it's importance in our economy

(A study on IDLC Finance LTD.)

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Declaration by the report candidate

I am Shahrul Habib, a student of BRAC University hereby declare that this report titled “SME Financing and its importance in our economy (A study on IDLC Finance LTD.)” hereby focusing on the IDLC Finance Limited submitted by me to the head of HR. To fulfil the requirement of achieving the BBA degree I was in attach with IDLC finance Limited to done with my internship programme from May 13 to August 13 under the supervision of Farhana Sharmin Sumi, Manager, HR, IDLC Finance Ltd. Here the report is not formed on the basis for the award of any other degree or other similar title to any candidate of any university.

Signature of the candidate

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I am Farhana Sharmin Sumi, manager, HR, IDLC Finance Ltd. Certified that the report titled SME Financing and its importance in our economy (A study on IDLC Finance LTD.) "" hereby focusing on the IDLC Finance Limited submitted by Shahrul Habib to the head of HR. To fulfil the requirement of achieving the BBA degree he was in attach with IDLC finance Limited to done with his internship programme from May 13 to August 13 under my supervision. Here the report is not formed on the basis for the award of any other degree or other similar title to any candidate of any university.

Farhana Sharmin Sumi

Manager, HR

IDLC Finance LTD.

Acknowledgement

At the very first of my expression I must admit my gratitude to the almighty Allah for giving me the opportunity to get everything done with my higher study properly and successfully from a renewed university like BRAC University. This report is the product of hard research, study and co-operation of my supervisors both from university and from IDLC. So I am really gratitude to all of them for their help and support. Without their help it would be really difficult for me to be done thin this report.

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Al though I faced a lot of problems and difficulties while preparing my report but these people made my difficulties way and motivate me to come up with a report of quality and full of information. I am really lucky to have supervisors like them.

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Executive summary

SME stands for small and medium enterprise which is much more related to offering loan to the entrepreneur or existing business who are really willing to develop their business with the flow of time, innovation, technology as well as competitive market. It is very important and crucial for overall development of the economy of the country. SME financing has developed a lot for last several years. In a study it is found that in SME sector the loan recovery rate is much more higher compared to the large organization loan which is also large in amount.

Moreover SME contributes a large amount of invested capital over the capital and financial market. These issues have made the SME sector very investment friendly to many financial institutions. As a result many financial and non financial institutions now actively contributing to this sector to develop themselves as well as to develop the financial condition of the country.

While collecting information of contribution of SME in the economy of the country I found out that SME contributes to the extent of 25% of the GDP in Bangladesh, about 40% of the gross manufacturing output (Majority in small and medium industries), 80% of industrial jobs and around 25% of the total labour force. The total number of SME entrepreneurs is about 6 million (National private survey of enterprises in Bangladesh 2003, A study conducted by USAID, DFID and CIDA). The study also claims that the SME sector is a significantly growing sector in the financial market of Bangladesh.

Industrial Development Leasing Company (IDLC) of Bangladesh limited started its mission to develop the industrial sector of Bangladesh by offering lease in 1985 as a pioneer leasing company. Over the year the company has evolved itself as a multi product non-banking financial institution providing a large range of services related leasing. Over the last two decades it developed a lot and it is increasing the portfolio of its SME sector following generic business growth model. Now its portfolio is about 2000 cr according to the result of May 2015. Its vision is to make the portfolio of SME doubled within the next eight years. IDLC is the second largest SME portfolio holder after BRAC Bank and it is the top one among the NBFIs.

Here in this report I tried to analyse the current scenario of the SME loan in the country and its future opportunity. Here my main focus is to describe the contribution of IDLC in this sector and how much they are contributing in the economy by their non-banking financing as well as by SME loan.

Introduction:

The world is now changing rapidly and the economy is getting the dynamic flow with the change of time and technology. The technology makes the economy more related to the industries. The changing world economic condition of least developed countries (LDCs) and developing countries have been moving to the rapid industrialization. In this age of industrialization era small and medium industries are contributing much more with their own flow but in this competitive market and economy it is really tough for those small and medium industries to survive.

Here the SME stands for and to serve those small and medium industries to fight against the monopoly business of those giants and make the economy more fair and stable. More or less every small and medium industries are dealing their business getting financial help through SME. SME requires very few amount of resources but they can be managed more efficiently. There are many bank and Non-banking financial institution to serve SME loan in Bangladesh and among those IDLC contributes a lot being the top SME portfolio holder among all non-banking financial institution. There are many opportunity to develop the business in the country through SME and it can undoubtedly flourish the economy as well as the nominal GDP of the country.

History of IDLC finance

IDLC was initially established in Bangladesh in 1985 through the collaboration of International Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, and Sadharan Bima Corporation. As the company evolved, initial foreign shareholding of 49% was gradually withdrawn and the last foreign shareholding was bought out by local sponsors in 2009.

Although IDLC finance initially started with Lease Financing as their core product, IDLC has grown to become the largest multi-product Non-Bank Financial Institution of Bangladesh, with almost equal focus in Corporate, Retail and SME sectors. Moreover, IDLC has a significant presence in the Capital Markets. Their merchant banking arm, IDLC Investments Limited, a wholly-owned subsidiary of IDLC is a premier brand for investment banking in the country. IDLC's stock brokerage arm, IDLC Securities Limited, another wholly-owned subsidiary of IDLC is also amongst the top five brokers in the country.

Over the years, IDLC has attained a significant presence in the corporate sector of Bangladesh. IDLC is highly respected by our clients, peers, employees and regulators for our strong corporate governance, statutory compliance, high ethical standards, a progressive and enabling working environment, and strong commitment to environmental and social development. IDLC continues to play a pioneering role in introducing and popularizing a variety of financial instruments suiting ever-changing requirements of its fast-growing clients. We are continuously expanding our presence to ensure the best quality of service to our clients at all times.

Vision:

- Being the best financial brand in the country.

Mission:

- Focusing on quality growth, superior customer experience and sustainable business practices.

Strategic Objectives

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

Description of the job:

As I enrolled in IDLC finance as an intern in Human resource department so there I had to do different tasks related to the HR activities. I got chance to work in the CHO (Corporate head office) of IDLC finance and the HR department operate from there. The Human resource department of IDLC is consist of six employees and among them one is the head of HR, one is senior manager, one is assistant manager, one is senior executive officer and two are support officer.

The main job of the HR department is collecting CV from potential employees and then arrange recruitment procedures. After the selection they manage the training activities for them to have brief idea about the jobs they are appointed to do.

The HR department manage all the files and information related the employees and for any need they provide those information. There are 1200 employees are in IDLC finance and all of them are managed through the HR department.

The payment and employee benefits are also managed by the HR department. Employees are paid their monthly salary through the bank account. The salary is transferred to the employees account by the Standard chartered bank. The employees also get loan for car or accommodation from IDLC finance and all of those loan is managed by the HR department.

Responsibilities and aspects of job

performance:

As an intern I had to do different types of works in IDLC and all of those activities are kind of support activities. Some time I had to do some major and critical tasks too but I did those under the supervision of the support officers. Here are the specific job responsibilities that I had to obey with in IDLC finance-

- ✓ Managing the employee's personal files.
- ✓ Updating information of employees in the HR module.
- ✓ Updating information of nominee information in HR module.
- ✓ Giving CIF (Employee identification number) number through HR module.
- ✓ Collecting CV from potential employees.
- ✓ Arranging meeting
- ✓ Arranging interview
- ✓ Conducting written test for selection
- ✓ Calling the potential employees and telling them the update.
- ✓ Calling the employees for interview and written test.
- ✓ Collecting necessary document from the employees and manage those in their personal files.
- ✓ Doing photocopy and scan of necessary documents.
- ✓ Making personal files of the employees
- ✓ Managing the intern's profile.

These are the basic and regular task that I had to do in IDLS as an intern but there are some more other tasks that I had to do too in regular basis but those are minor task to mention here. I got a lot of support from my supervisor and the support officers to get done with my tasks. At the very beginning they just show me how to get done the tasks effectively and efficiently and then very next time they just ask me to the task and by this process I get learnt to do those tasks.

While doing my appointed task I faced different types of difficulties and critical problems. On that situation I ask for help to the support officers as well as my supervisor and they feel free to show me the path.

Critical observation and Recommendation:

While working as an intern in IDLC finance I found out some critical matters and problem that they can easily overcome. As a renewed organization IDLC finance Ltd. Is very efficient and effective in their day to day activities but in some point they can be more efficient and effective in the perspective of HR related activities.

The way they manage and keep employees personal files is little bit inefficient and time consuming. There are over 1000 employees file are in the cabinets of HR department and it is little bit time consuming to find out a file that they need. They keep the files according to the designation of the employees but the problem is there are more than hundred employees with same designation so they have to search hundred files to find out a single file.

In this perspective I would like to recommend to keep those files in CIF ascending order so that they can easily find any file they want with in very short time.

There are a lot number of cv that they had to process and each time they had to make a copy for each of those and in interview they had to make more than five copy of each CV of selected candidate which waste a huge amount of time and paper in doing photocopy.

They can easily solve this wastage by using the soft copy. They can store the softcopy by scanning those. While interview they can have a soft copy in their laptop rather having the printed copy which can save lots of time and money.

There is huge amount of task the HR department had to do and by the six member it is really critical and over helming for the employees to done with those tasks. So I think they can add some more employee in the team and make a proper distribution of tasks to get works done perfectly.

Objective of the report:

The general objective of the report is to find out the present state of SME in our country and its importance and contribution in our developing economy. Here in the report I tried to find out the SME operation, managing credit risk of SME financing by IDLC and other banking and non-banking financial institution, present state of SME in the country, the contribution of SME in the development of the economy, the challenges that is faced by different organization dealing with SME loan, the definition of small and medium organization in the perspective of Bangladesh.

The main objective of the report is to show out the importance of SME in a developing country like us and the way that SME can make the economic growth fluent. This report really help to get an idea about the necessity of SME in the economy like us.

This report is also a part of the completion of the BBA course and it is also a part of the whole course. So to done with the course successfully I had to come up with this report but here in this report I tried my best to make it more informative and analytical to make sure the quality of the content and the message that I tried to convey through the report.

Methodology of the report:

The selection of an effective and efficient method for research study is really important to come up with quality of information and data. Here I tried some sequential method and way of activities to done with this report successfully. Here while doing the report I collect data from different sources some are primary that I collect from direct IDLC finance and some I collect from different secondary sources. Combining and analysing all of those information I just come up with this report.

Limitations and delimitations:

SME financing is really new in the economy and it is gradually getting updated and famous among the people and business. Most of the organization that are dealing with SME is still in primary stage. As a result the necessary data is really not that much available. Even secondary data is also rare to find out. While doing the research and collecting data about SME I find out that there is no direct data about SME in anywhere rather the data are attached with different other non-related information.

Here I list down some common problem that I faced while doing the research-

- Limitation of data required for the report.
- Data are not classified
- Have to depend mostly on primary data
- Need to filter and classify data that waste time.
- The information are too much sensitive that the organization are not willing to disclose.
- Sufficient record and publication is not available.

Despite all of these limitation I tried my best to give relevant information in the report to make it more informative and logical. I expect that the information that I use here is much more relevant and accurate that represent the relevance of the report.

Summary

SME stands for small and medium enterprise which is much more related to offering loan to the entrepreneur or existing business who are really willing to develop their business with the flow of time, innovation, technology as well as competitive market. It is very important and crucial for overall development of the economy of the country. SME financing has developed a lot for last several years. In a study it is found that in SME sector the loan recovery rate is much more higher compared to the large organization loan which is also large in amount. Moreover SME contributes a large amount of invested capital over the capital and financial market. These issues have made the SME sector very investment friendly to many financial institution. As a result many financial and non-financial institution now actively contributing to this sector to develop themselves as well as to develop the financial condition of the country. In Bangladesh SME consist of almost 90% of the total industrial setup. SME creates and contributes nearly 85% employment in different industrial sectors which is almost 30% of the total number of employment created in the whole nation. SME accounts for nearly 30% of the total GDP in Bangladesh which is huge in sense of one sector contribution. In terms of adding value SME contributes 45% to 50% of the total value addition of a yearly total production.



Chapter -1

SME Define

Definition in general:

A business that maintains revenues or a number of employees below a certain standard. Every country has its own definition of what is considered a small and medium-sized enterprise. In the United States, there is no distinct way to identify SME typically it depends on the industry in which the company competes.

In the European Union, a small-sized enterprise is a company with fewer than 50 employees, while a medium-sized enterprise is one with fewer than 250 employees.

SME firms tend to spend a lot of money on IT and, as a result, these businesses are strongest in the area of innovation. The need to attract capital to fund projects is therefore essential for small and medium-sized enterprises. To be competitive SME firms require "out of the box" solutions, even if they involve surrendering some functionality.

Small business means the size of which is not big- the size again depends on the yardstick one uses to measure. What is small to one may be medium or even big to some others. Small business is an integral part of the total business scene in any country.

- According to Small Business act 1934- A business which is independently owned and operated and not dominant in its field” is a Small Business.
- The small Business Act of 1953 defines small business as “one which is independently owned and operated and not dominant in its field of operation.” Though small in size such business activities cover almost any area of business viz. manufacturing, mining, wholesaling, retailing, service and the like.
- According to executive committee for national economic development-A Small Business one of which process at least two of the following characteristics:
 - Managers are the owners.
 - Capital supplier and the owner is individual or a small group.
 - Worker and the owners are local, market may not be so.

- Relatively smaller compared with the biggest unit of the industry [Sales, employees etc.]

From all of the above definitions we can make a general definition of Small Business-

“A business not dominating in its field, does not engage in any new marketing, workers are local, working at a single location, produced units are relatively small in size, and often all organized by the owner or his family members.”

Definition in Bangladesh context:

The definition of SME given by different organization of Bangladesh varies from one another. Some definition are given below-

“Small industry means an industrial establishment or unit which is run mainly by hired labour and not using mechanical motive power but does not normally employ more than 50 work and whose land, building and machinery does not exceed Tk.150, 00,000 in value in either case.” – E. Pakistan Small Industries Corporation Act of 1957.

Definition Stated By the Bangladesh Bank:

The central bank of Bangladesh has come up with a new definition for small and medium enterprises in line with the government's industrial policy of 2010.

The new definition replaced the previous ones formulated in May 2008, incorporating microenterprise and cottage industries.

Under the new definition of Bangladesh Bank, the Bangladesh Bank will deem an individual as an entrepreneur or a small business owner if the person is an owner or proprietor of a privately-run organization, or owns at least 51 percent of share in case of a joint venture or company listed with the Office of the Registrar of Joint Stock Companies and Firms.

The central bank also included- microenterprise and cottage industries in all of its SME loan policies and programmes.

According to the new definition,

In Manufacturing:

Medium-size industry/enterprise

Assets: Worth Tk 10 crore to Tk 30 crore (excluding land and factory building, but including replacement value)

Employee No. : 100 to 250 workers.

Small-size industries/enterprises

Assets: Worth Tk 50 lakh to Tk 10 crore (excluding land and factory building, but including replacement value)

Employee No. : 25 to 99 workers.

Micro industry/enterprise

Assets: Worth Tk 5 lakh to Tk 50 lakh (excluding land and factory building, but including replacement value)

Employee No. : 10 to 24 or less

In both services Industry and Businesses:

The medium-size enterprises

Assets: Worth Tk 1 crore to Tk 15 crore (excluding land and factory building)

Employee No. : 50 to 100 workers

The small-size enterprises

Assets: Worth Tk 5 lakh to Tk 1 crore.

Employee No. : 10 to 25 workers

Micro-enterprises:

Assets: worth Tk 5 lakh or less (excluding land and factory building, but including replacement value)

Employee No. : 10 or less.

Cottage industries/enterprises:

Assets: Worth Tk 5 lakh to Tk 50 lakh (excluding land and factory building, but including replacement value)

Employee No. : 10 to 24 workers or less.

Here a table is given that present the definition of small and medium enterprise business in the perspective of Bangladesh according to the definition of Bangladesh bank.

| Particulars | Small | Segment | Medium | Segment |
|----------------------------------|--------------------------|-------------------------|----------------------------|-------------------------|
| Type of concern | Assets based | Employment based | Assets based | Employment based |
| Manufacturing concern | BDT 5 mil-100 mil | 25-99 | BDT 100 mil-300 mil | 100-250 |
| Sercive providing concern | BDT 0.5-10 mil | 10-25 | BDT 10 mil-150 mil | 50-100 |
| Trading concern | BDT 0.5-10 mil | 10-25 | BDT 10 mil- 150 mil | 50-100 |

Classification of SME:

The government of Bangladesh categorized SME into two broad classes and those are-

- Manufacturing enterprise
- Non-manufacturing enterprise.

Manufacturing enterprise are also divided into two parts and those are-

- Small enterprise
- Medium enterprise

Non-manufacturing enterprise are also divided in to tow parts in same ways and those are-

- Small enterprise
- Medium enterprise.

According to the Bureau of statistics different enterprise are defined as:

| Enterprise | No. of employees |
|-------------------|-------------------------|
| Micro | 0-9 |
| Small | 10-49 |
| Medium | 50-99 |
| Large | Above 99 |



Chapter -2

Contribution of SME in

Economy

All the contributing industries of Bangladesh is not large industry but maximum of the contributing industry in the economy is small and medium and all of those contribute a lot in the cumulative form in the economy. Here I discussed some points with how the SME helps to develop the economy to go up and fluent-

In view of present economic development effort in Bangladesh the SME sector plays an important role. These are reflected in the following performance /activities of this sector:

- ✓ During the Fourth Five year plan, a total of **0.35 million** jobs were created against the target of **0.4** million.
- ✓ Contribution of SME sector to GDP remained above **4.5%** during the period from 2000-01 to 2004-2005 despite decline in the amount of advances by the banking sector to this sector.
- ✓ SME sector employs **25%** of the total labour force. As a result, this sector is the present available sector for creation jobs.
- ✓ SME sector help alleviate poverty, increase income level of rural people and promote agro-industrial linkage in Bangladesh.
- ✓ SME sector requires lower energy supply, lower infrastructure facilities and this sector imposes less environmental risk. They contribute towards better utilization of local resources and skills that might otherwise remain unutilized.
- ✓ Small industries being labour oriented are capable of generating more employment.
- ✓ They are necessary to maintain and retain traditional skills and handicrafts.
- ✓ They are the only medium for diversification of rural economy and for peaceful and concurrent socio-economic development of all classes of people. From the above discussion, we can say that SMEs are playing an important role in our economy in various ways.

Helping LDC economies:

Economic growth is the most important matter for the people in the least developed and developing countries and in those countries it is much more important to come up with more jobs vacancies and making sure for the maximum employment of the population. SME helps to develop more industry and business in the base of economy and it can undoubtedly enhance the number of employment in the country.

The main problem in the LDC is the unemployment problem which lead to less growth and weak infrastructure of the economy. Here the SME can help to overcome all of those problems to make the economy stable and stronger.

Reduce the income inequality:

In less and weak stable economy there is a common problem which is the income inequality among the citizen and the difference between the rich and poor is very much high. Here the SME is a good solution to reduce the gap. A well SME dominated economy can easily reduce the gap among the income of the citizen and helps to make the economy stable and more sustainable. For an example Taiwan, where the number of small and medium business is huge which make the economy fairer and stable.

Increase employment:

SME helps to generate more small and medium business over the country and it is undoubtedly a positive impact for the expansion of the number of employment. SME also helps to expand the existing business which is also can create more employment in the country.

Generation of economic growth:

The economic growth depends on different elements related to the economy, society, policy as well as environment. The SME helps to create different positive impact on the economy

that is discussed above. As a result we can say it plays a vital role in the generation of the economic growth.

Increase market competition:

As SME helps to create more business in the economy it is common to raise the competition among those business. It also helps to reduce the monopoly business by the large industry in the economy as a result the pricing and demand of the products and services come to rationality. The quality of the services and products also enhanced just because of the high competition among the business.

Other than these there are some more positive impact that SME financing creates to develop the economy and here are some points-

- Creates more base for the large industries.
- Helps to expand the existing businesses.
- Increases the competition among the businesses.
- Providing backup for large industries.
- Enhance the performance of the existing business.

Reasons of SME's efficiencies in developing countries:

The main intention of SME financing is to provide service to maximum consumers who have potentiality. Unlike other loan facilities SME loan is much easier to have and effort. That is why it just gain more popularity in the developing countries. Here are some reasons that make SME financing more popular-

- ✓ Lower capital investment
- ✓ Low intensiveness
- ✓ Lower cost per employment
- ✓ Lower capital output ratio
- ✓ Easy value addition

- ✓ Promote small business
- ✓ Influence entrepreneurs
- ✓ Influence new ideas
- ✓ Short start-up period
- ✓ Less paper works
- ✓ Low in amount

Because of these reasons SME getting popularity day by day and new entrepreneurs are getting motivated to start their business with the help of SME financing.



Chapter -3

Current state of SME

Current state of SME's:

In the perspective of the present economic condition of the country the importance of SME is in high. It plays a vital role to develop the existing business in a rapid way as well as it helps to add more valued new business in the table of economy. Here I short down some identical information to represent the importance of SME in our economy-

- Within the plan of five year a total number of .35 million new jobs were created against the target of 0.4 million.
- Contribution of SME sector in the growth of GDP remained 4.5% during the last calculation.
- SME sector involves in 25% creation of employment of total labour force.
- SME sector helps to reduce poverty.
- Encourage the entrepreneur and the number of new business increases 20% in last five years.
- The new creation of jobs reduce the number of unemployment with a satisfactory number which is 12% within last five years.
- It creates more base for large industries and reduce the dependencies of import some materials.

Janata Banks are disbursing significant amount of credit under various programs like Small Enterprise development project Self-help credit program and project for small Entrepreneurs, Special Investment Program and Agro-based Supervisory Industrial Credit etc for the promotion and development of SMEs.

The investment of private sector banks in financing SMEs remains insignificant in Bangladesh. Of all the private sector banks like Pubali Bank, Standard Chartered Bank, Agrani Bank, BRAC Bank, Eastern Bank Ltd. (EBL), Prime Bank Ltd, Dhaka Bank Ltd, Mercantile Bank Ltd, Dutch-Bangla Bank Ltd, Islami Bank Bangladesh Ltd, IFIC Bank Ltd. And some NBFIs like IDLC Finance have the leading role in SME financing.

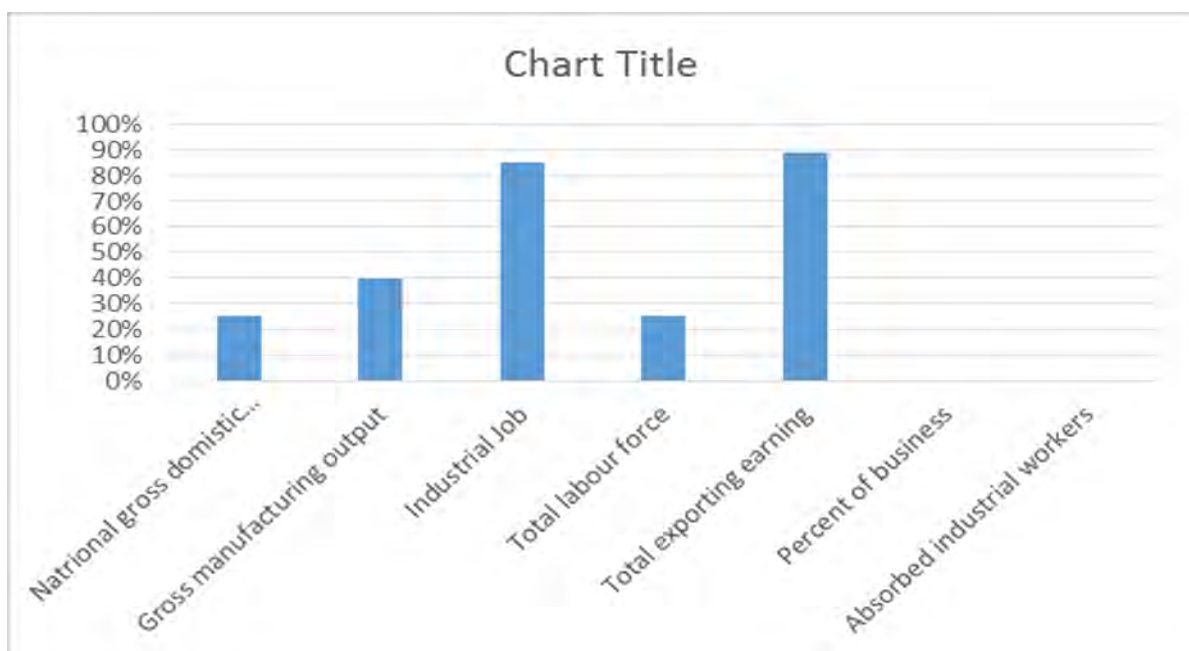
Bank of Small Industries and Commerce Bangladesh Ltd.(BASIC) and other government and private banks are entrusted with the responsibility of providing medium and long-term loans

for promotion and development of small-scale industries. The memorandum and Articles of Association of the bank stipulates that 50% of loan able funds shall be used for financing small scale and cottage industries. The outstanding credit of BASIC stood at 1505.06 crore at the end of June 2012 for small and cottage industries sector.

Here this table represents the contribution of SME in the different financial and business aspects in Bangladesh in the development of economy-

| Aspects | Role of SME's |
|-----------------------------------|---------------|
| Natrional gross domestic products | 25% |
| Gross manufacturing output | 40% |
| Industrial Job | 85% |
| Total labour force | 25% |
| Total exporting earning | 89% |
| Percent of business | Over 95% |
| Absorbed industrial workers | 70% to 80% |

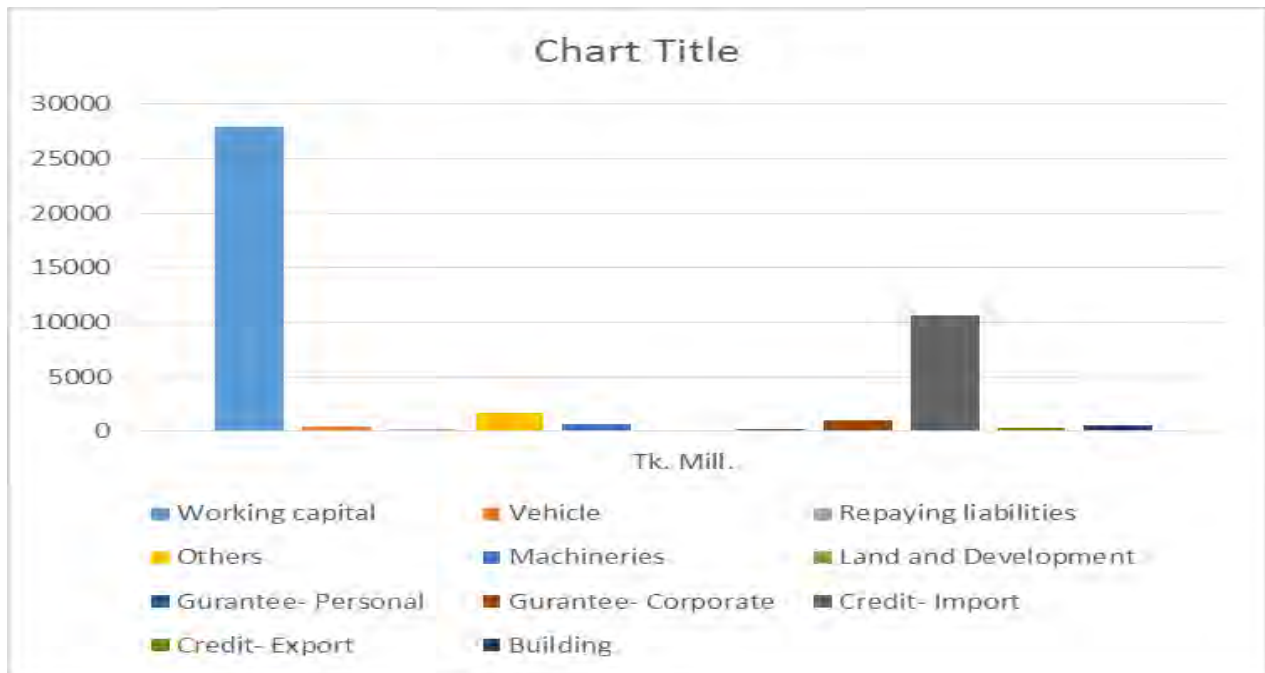
Source: <http://beioa.org.bd>



SME market segmentation database report of Bangladesh bank:

Loan authorized and disbursed by loan purpose:

| Loan purpose | Tk. Mill. |
|----------------------|-----------|
| Working capital | 27930.36 |
| Vehicle | 380.77 |
| Repaying liabilities | 155.74 |
| Others | 1716.44 |
| Machineries | 606.72 |
| Land and Development | 76.46 |
| Gurantee- Personal | 182.72 |
| Gurantee- Corporate | 980.95 |
| Credit- Import | 10577.6 |
| Credit- Export | 322.92 |
| Building | 568.34 |



From the above table we can easily understand that the amount of loan authorized on different sector. Here the highest loan authorized for working capital which is about 27930 million. These amount is not for only the small and medium businesses but also for some giant business industry in the country. It is common that to run the businesses there is huge necessity for working capital and more or less the loans are taken for those purpose.

Credit Import is the second purpose to get top amount of loan disbursement and the amount is 10577 million which is quit high. For import purpose this amount is really high because it can imbalance the structure of the economy of the country and government should take initiative to reduce this amount.



Chapter -4

Overview Of IDLC Finance

IDLC was initially established in Bangladesh in 1985 through the collaboration of International Finance Corporation (IFC) of the World Bank, German Investment and Development Company (DEG), Kookmin Bank and Korean Development Leasing Corporation of South Korea, the Aga Khan Fund for Economic Development, the City Bank Limited, IPDC of Bangladesh Limited, and Sadharan Bima Corporation. As the company evolved, initial foreign shareholding of 49% was gradually withdrawn and the last foreign shareholding was bought out by local sponsors in 2009.

Although IDLC finance initially started with Lease Financing as their core product, IDLC has grown to become the largest multi-product Non-Bank Financial Institution of Bangladesh, with almost equal focus in Corporate, Retail and SME sectors. Moreover, IDLC has a significant presence in the Capital Markets. Their merchant banking arm, IDLC Investments Limited, a wholly-owned subsidiary of IDLC is a premier brand for investment banking in the country. IDLCs stock brokerage arm, IDLC Securities Limited, another wholly-owned subsidiary of IDLC is also amongst the top five brokers in the country.

Over the years, IDLC has attained a significant presence in the corporate sector of Bangladesh. IDLC is highly respected by our clients, peers, employees and regulators for our strong corporate governance, statutory compliance, high ethical standards, a progressive and enabling working environment, and strong commitment to environmental and social development. IDLC continues to play a pioneering role in introducing and popularizing a variety of financial instruments suiting ever-changing requirements of its fast-growing clients. We are continuously expanding our presence to ensure the best quality of service to our clients at all times.

Vision:

- Being the best financial brand in the country.

Mission:

- Focusing on quality growth, superior customer experience and sustainable business practices.

Strategic Objectives

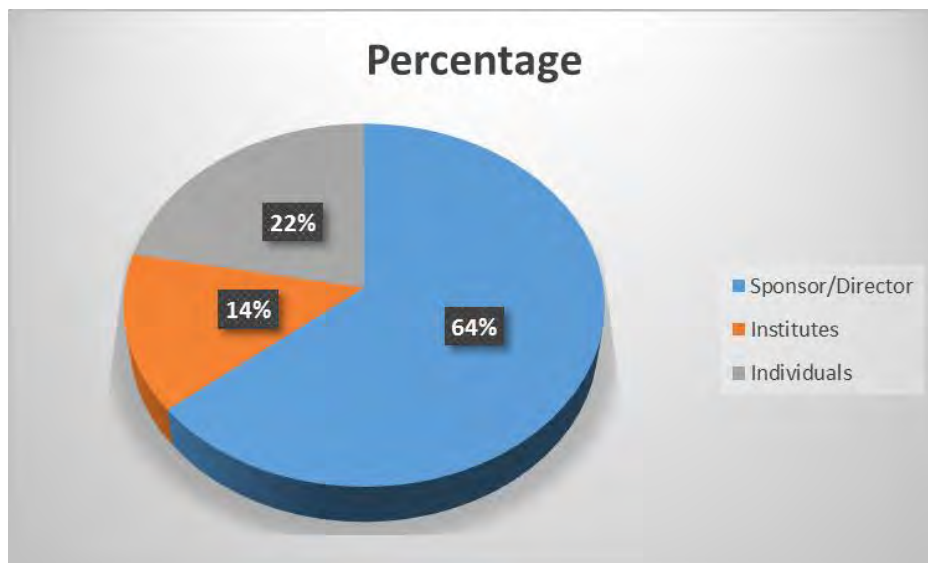
- Grow and develop our talent pool
- Fully leverage new core banking platform
- Optimize distribution points
- Grow and diversify funding sources
- Grow sales and service capabilities in Consumer Division
- Aggressively grow SME portfolio
- Focus on top-tier clients in Corporate
- Consolidate capital market operations and enhance capabilities
- Embrace internationally accepted corporate governance and sustainable business practices.



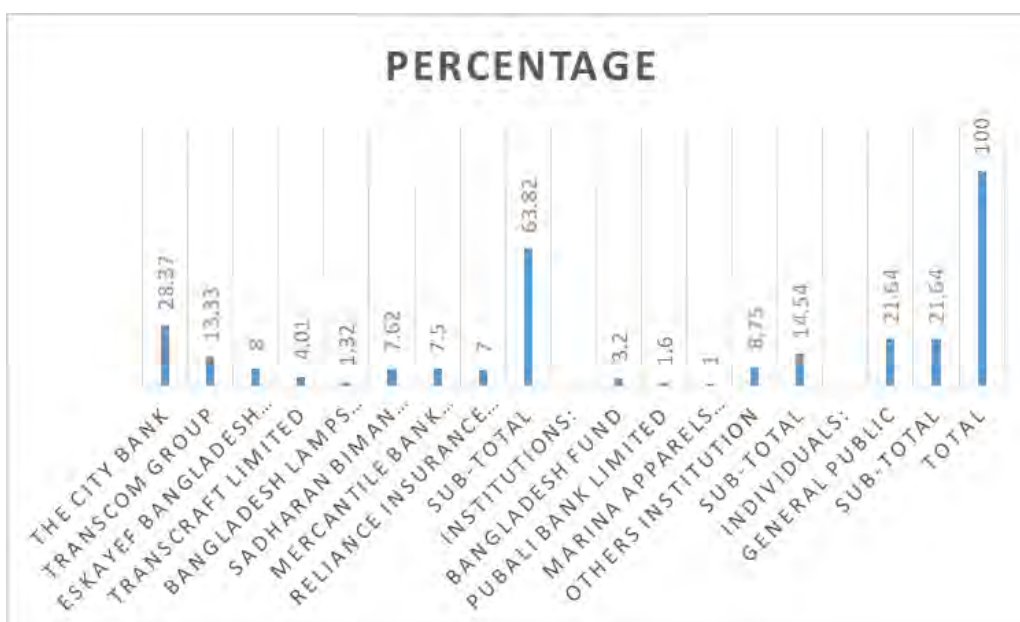
Shareholding structure:

The shareholding structure of IDLC consists of commercial banks, investment banks, corporate and prominent industries from home and general investors. Here is the current structure-

| Shareholders | Percentage |
|------------------|------------|
| Sponsor/Director | 64 |
| Institutes | 14 |
| Individuals | 22 |



| Name of Shareholders | Percentage |
|--------------------------------|--------------|
| Sponsors/Directors | |
| The city bank | 28.37 |
| Transcom group | 13.33 |
| Eskayef bangladesh limited | 8 |
| Transcraft limited | 4.01 |
| Bangladesh lamps limited | 1.32 |
| Sadharan biman corporation | 7.62 |
| Mercantile bank limited | 7.5 |
| Reliance insurance Co. Limited | 7 |
| Sub-Total | 63.82 |
| Institutions: | |
| Bangladesh fund | 3.2 |
| Pubali bank limited | 1.6 |
| Marina apparels limited | 1 |
| others institution | 8.75 |
| Sub-Total | 14.54 |
| Individuals: | |
| General public | 21.64 |
| Sub-Total | 21.64 |
| Total | 100 |



Strategic objective:

- Grow and develop talent pool
- Being the number one financial brand
- Being in the top in SME portfolio
- Maximizing the output
- Grow and diversify funding source
- Optimize distribution points
- Aggressively grow SME portfolio
- Fully leverage new core banking platform.

Products of IDLC Finance limited:

Small and medium enterprise (SME)

- Small enterprise Finance.
- Small enterprise loan/lease
- Seasonal loan
- Woman entrepreneur loan
- SME Shachal loan
- SME Surakkha
- SME deposit
- Medium enterprise finance
- Medium enterprise lease/loan
- Commercial vehicle finance
- Machinery lease
- Healthcare finance
- Revolving short term loan
- SME deposit
- Supply and distributor finance
- Factoring of accounts receivable

- Bill/Invoice discounting
- Work order financing
- Distributor financing

Consumer finance

- Home loan
- Flexible term deposit package
- Car loan
- Regular earner package
- Personal loan
- Loan against deposit

Corporate Division

- Corporate finance
 - Lease financing
 - Term loan financing
 - Working capital arrangement
 - Project financing appraisal
 - Specialized products
-
- Structured finance solution
 - Loan/ lease syndication
 - Private placement of equity
 - Preference share
 - Project/ infrastructure finance
 - Bond
 - Foreign currency loan
 - Referencing of special fund
 - Mergers and acquisition
 - Joint venture matchmaking

- Balance sheet restructuring
- Feasibility study
- Securitization of assets
- Structured solutions

Treasury

- Common equity investment
- Term placement
- Call placement
- Zero coupon bond
- Debenture



Chapter -5

SME Financing By IDLC

Small Enterprise Finance

IDLC offers financing facilities to small-scale enterprises for carrying out their trading, manufacturing or service business. Moreover, financing facilities for developing commercial real estate can also be availed by such enterprises.

SME Loan

SME Loan is a facility designed to finance small-scale trading, manufacturing and service ventures to help them meet short-term cash flow needs and bridge the fund-flow gaps.

Eligibility

- Entrepreneurs need to have minimum 2 years of experience in the same line of business.
- The Business must be a going concern with minimum operational experience of 2 years
- Loan Limit
- Minimum Taka 5 lacs to maximum Taka 1.5 crore

Key Features

- IDLC offers loan without any collateral for up to Taka 15 Lacs.
- They offer partial cash-secured loan up to Taka 70 Lacs.
- They offer loan for Working Capital Finance and/or Lease finance for business.
- Borrowers having loan facilities with other financial institutions can also avail this facility.
- Convenient repayment options are offered, consisting of Equal monthly installments and/or customized repayment schedule.
- IDLC brings fast and quality service at your doorstep

ABASHAN Loan

"ABASHAN" is a loan facility extended to small businesses that will construct or already have permanent structure for commercial rent (popularly known as mess rent), that are located in places surrounding the industrial areas and EPZs across the country.

Eligibility

- Entrepreneurs with minimum 1 year experience in the same line of business.
- Business must be a going concern with at least 1 year in operation.
- Monthly income from rental and other sources must be minimum Taka 60,000

Loan Limit

Minimum Taka 3 lacs to maximum Taka 40 Lacs

Key Features

- IDLC offers loan without any collateral for up to Taka 15 Lacs.
- Borrowers having loan with other financial institutions can also avail Abashan Loan.
- Borrowers enjoy a convenient repayment system through Equated Monthly Installments (EMI).
- We bring fast and quality service at your doorstep

Medium Enterprise Finance

SME-Mid segment offers mid and longer term financial solutions to a wide range of enterprises with the potential of emerging as a promising Corporate House in near future. Our portfolio comprises of various Limited, Partnership and Proprietorship concerns from a wide range of prospective business sectors.

Lease Financing

- IDLC finance offers Asset backed financing against industrial machineries, commercial equipments, office equipments, generators, vehicles, vessels, engines, etc.

- Financing may be extended up to 100% of the cost.
- They offer flexible terms in case of security/collateral against the facility
- Usual financing terms between 2 to 5 years
- Repayment can be made through Equal or Structured (step-up, step-down, bullet, etc.) rentals payable every month
- Legal ownership remains in the name of IDLC throughout lease period, and is transferred back to the client at the end of the term

Sale and Lease Back

- They offer financing against existing assets (already procured/in-use) of a company including industrial machineries, commercial equipments, office equipments, generators, vehicles, vessels, engines, etc.
- Ownership of the asset is transferred to IDLC at the time of financing, and is re-transferred to the client at the end of the lease period
- Financing can be extended up to 100% of the written-down value (cost net of depreciation) depending on the condition of the asset
- Usual financing term between 2 to 5 years depending on the original date of purchase and current condition of the asset
- Repayment can be made through Equal or Structured (step-up, step-down, bullet, etc.) rentals payable on a monthly basis

Working Capital Financing

- They offer Working Capital facilities to companies for carrying out day-to-day business operations
- Financing can be made through various modes including Time Loan, STL, Work-order Financing and many other forms of short-term loan facilities
- IDLC offers competitive interest rates at simple terms against these facilities

Specialized Products

For matching the repayments with cash flows, allowing some more time for repayment, releasing working capital limits refinancing of existing good quality liabilities is made.

Refinancing of Existing Liabilities

- To allow clients to match repayments with cash flows, have more time for repayment, release working capital limits already exhausted from meeting capital expenditures using short-term credit lines), we offer Refinancing facilities against existing good quality liabilities.
- Financing terms and repayments structures are similar to those of Term Loan.

Term loan Financing

For meeting various regular capital/fixed expenditures like balancing of production line, modernization of manufacturing process, expansion of capacity and space, etc.

- IDLC offers Term Financing to meet regular capital/fixed expenditures such as balancing of production line, modernization of manufacturing process, expansion of capacity and space, etc.
- Financial offered usually for a term of 1½ to 5 years
- Repayment through monthly installments
- Repayment is made through monthly payment of Equal or Structured (step-up, step-down, bullet, etc.) installments
- Flexible terms are offered regarding security/collateral against the facility

Bridge Financing

- IDLC offers Bridge Financing facilities to meet interim fund requirements of clients
- Financing is offered for a shorter term, considering nature of the facility
- Repayment is generally made through bullet payments

- Deferred repayment structure is available depending on the financial product

Long Term Finance for Real Estate Developers

- IDLC finance Real Estate Developers to meet capital expenditures/construction costs of Real Estate projects, both residential and commercial
- A favorable debt-equity ratio is maintained
- Disbursements are usually made in phases along with the progress of the construction work.
- Financing term can be up to 6 years depending on the nature of the project
- Repayment can be made every month or quarter through Equal or Structured installments

Loan to Corporate Houses to procure Commercial Space

- IDLC offers financing to Corporate clients for procurement of commercial/office space
- Loan term may be extended up to 6 years, depending on the feasibility of the project.
- Repayment can be made every quarter or month through Equal or Structured installments Project Financing.

Project Financing – Fixed cost

For setting up of a new unit as addition to the existing product line and capacity, a new concern of an existing group, a new Joint Venture project of an existing company, etc.

- IDLC offers Project Financing facilities to clients for setting up a new unit in addition to their existing product line and capacity, starting a new concern as part of an existing group, starting a new Joint Venture project with an existing company, etc.

- A favorable debt-equity ratio is maintained
- They can offer a comprehensive financial solution for the entire project by combining the various services offered by us
- The financing terms varies based on the product type. For Fixed-cost financing, the term may be extended up to 6 years
- Different repayment structure can be designed depending on the financial product



Chapter -6

Statistical View

Here I give some statistical view of IDLC finances and their progress in SME financing is the flow of time-

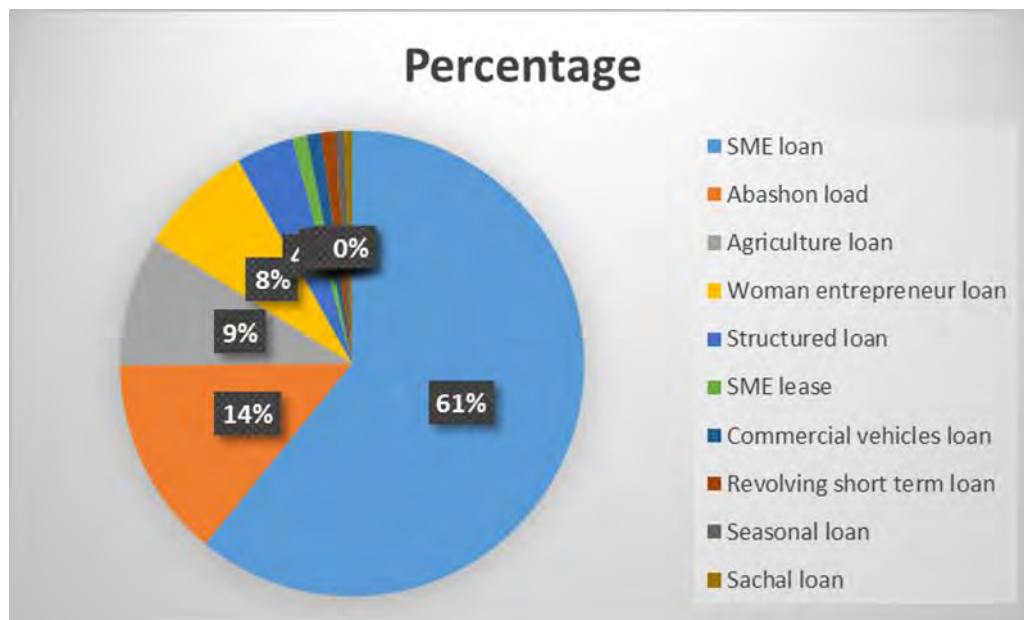
Here the table represent the portfolio of SME of IDLC finance.

| Year | Amount |
|------|--------|
| 2009 | 1758 |
| 2010 | 2712 |
| 2011 | 4485 |
| 2012 | 7498 |
| 2013 | 10392 |



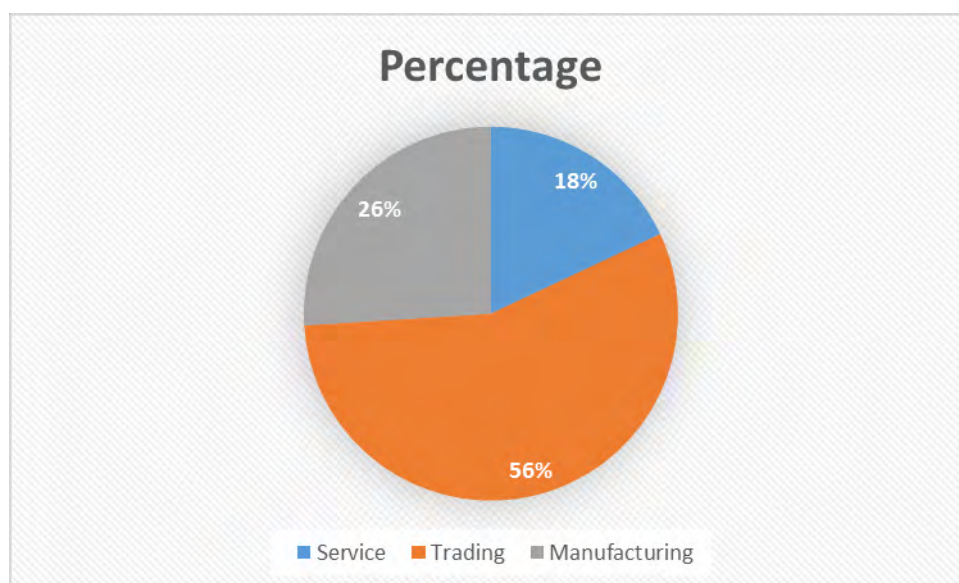
Here the table shows the products wise outstanding of IDLC finance.

| Product | Percentage |
|---------------------------|------------|
| SME loan | 61 |
| Abashon load | 14 |
| Agriculture loan | 9 |
| Woman entrepreneur loan | 8 |
| Structured loan | 4 |
| SME lease | 1 |
| Commercial vehicles loan | 1 |
| Revolving short term loan | 1 |
| Seasonal loan | 0.65 |
| Sachal loan | 0.52 |



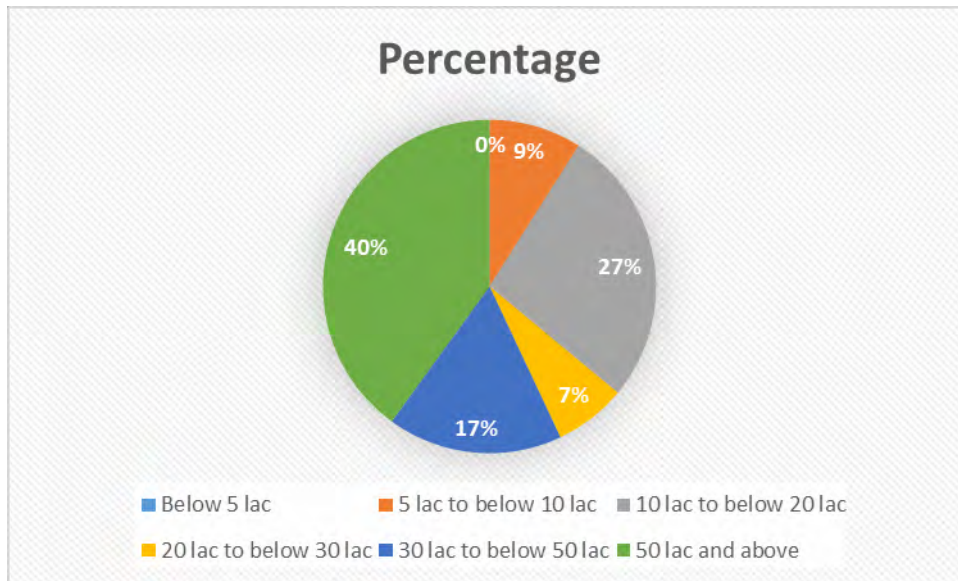
Here the table below represent the sector wise portfolio of IDLC finance.

| Sector | Percentage |
|---------------|------------|
| Service | 18 |
| Trading | 56 |
| Manufacturing | 26 |



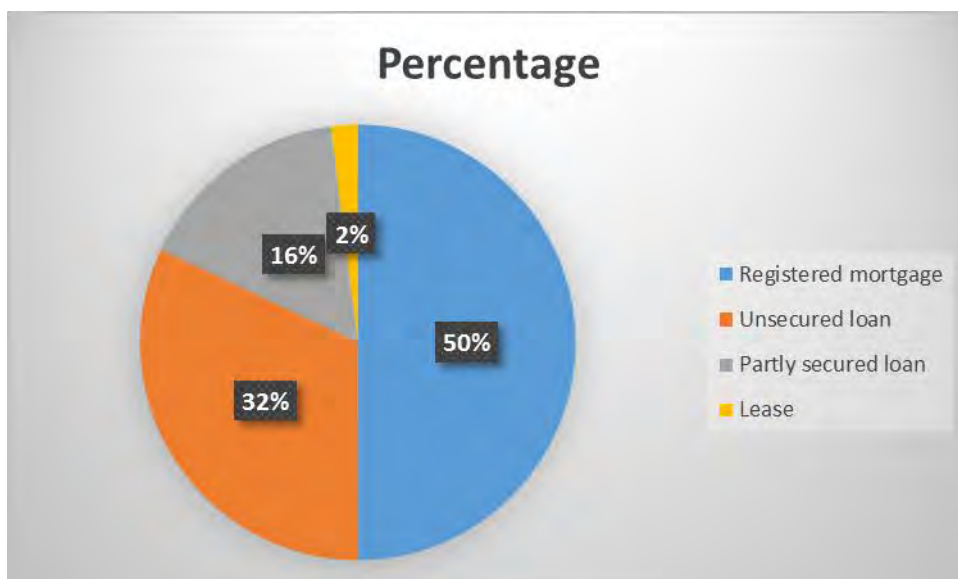
Here the table shows the portfolio according to the loan size.

| Loan size | Percentage |
|------------------------|------------|
| Below 5 lac | 0 |
| 5 lac to below 10 lac | 9 |
| 10 lac to below 20 lac | 27 |
| 20 lac to below 30 lac | 7 |
| 30 lac to below 50 lac | 17 |
| 50 lac and above | 40 |



Here the table represents the percentage of loan at their security basis-

| Types of loan | Percentage |
|---------------------|------------|
| Registered mortgage | 50 |
| Unsecured loan | 32 |
| Partly secured loan | 16 |
| Lease | 2 |



NPL trend of IDLC from 2008 to 2014:

| Year | Percentage |
|------|------------|
| 2008 | 3.39% |
| 2009 | 3.90% |
| 2010 | 3.30% |
| 2011 | 2.15% |
| 2012 | 1.42% |
| 2013 | 1.14% |
| 2014 | 1.49% |





Chapter -7

Recommendation And

Conclusion

Recommendation:

In Bangladesh SME consist of almost 90% of the total industrial setup. SME creates and contributes nearly 85% employment in different industrial sectors which is almost 30% of the total number of employment created in the whole nation. SME accounts for nearly 30% of the total GDP in Bangladesh which is huge in sense of one sector contribution. In terms of adding value SME contributes 45% to 50% of the total value addition of a yearly total production.

Bangladesh is a land of different unpredictable risks for business and industries. Yet, it is important to deal in by menimizing those risks. From the perspective of IDLC finance, all the risk factors involves in SME are-

- ✓ According to the definition of SEF, the owners of this sector have small asset base
- ✓ Most of the owner have very few knowledge
- ✓ Most of the owner are new in industry
- ✓ There is no formal accounting system to manage the loans
- ✓ The loans are highly seasonal demanded
- ✓ The SME sector is high competitive

To reduce the risk and make SME sector more effective and efficient all the stakeholders have to take initiatives. Here some possible initiatives that can be taken are given-

- ✓ Give training and make seminars to make people aware.
- ✓ Make positive policies for the development and growth of the SME sector.
- ✓ Intensive training can be taken to ensure the efficiency of the manpower.
- ✓ The board of director should check the progress regularly
- ✓ Take initiative to minimize the credit risks
- ✓ Establish a well-defined credit limit for each individuals
- ✓ Make sector wise research
- ✓ Use MIS to manage data and information
- ✓ Make sector wise appraisal report

By taking and following these initiatives the SME sector can be made a more effective and efficient in sense of productivity and services providing.

Conclusion

The SME is a well-recognized financial service over the world and it has huge power to change the economic flow of a country. With the flow of economic growth the SME becomes more effective and efficient as a result the demand for SME is also raising rapidly. In the developing countries the importance of SME is huge like Bangladesh because here the economy is much more labour concerned. So to develop the economy SME contribution is huge undoubted as it creates more opportunity for the small and medium industries to expand which creates more employment in the country.

From the view point of SME's importance in the overall economic growth and opportunities that the financial institutions have in developing this segment, our central bank and other regulator as well as policy makers should review the whole process in holistic approach as it is closely correlated with the economic emancipation of the general people of the country. SME is not only concern of small and medium industries but also making base for large industries and making the industrial sector more strong, active and competitive. As IDLC finance is holding the second largest SME portfolio over the country, it is undoubtedly can be predicted the contribution and importance of IDLC in the growth of economy of Bangladesh.

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