

**Internship Report**  
**On**  
**Risk Minimization Process in SME Finance**  
**Of**  
**IDLC Finance Limited**



*Internship Report*  
*On*  
*Risk Minimization Process in SME Finance*  
*Of*  
*IDLC Finance Limited.*

**Prepared To**

**Mr. Mahbub Parvez**

**Associate Professor**

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Daffodil International University

**Prepared By**

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Major: - Finance

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**Date of submission: 11/01/2019.**

**DAFFODIL INTERNATIONAL UNIVERSITY**

**Letter of Transmittal**

Date: January 11, 2019

To

**Mr. Mahbub Parvez**

**Associate Professor**

Faculty of Business & Entrepreneurship

**Subject: -** Submission of Internship Report.

Dear Sir;

Here I am submitting my internship Report on “Risk Minimization process in SME Finance of IDLC Finance Limited” prescribed by you. This report is an integral part of the completion of the MBA program. For this purpose I have tried my level best to accumulate relevant and up-to-date information from all available sources. I have gone through Different Books, Interview of customers for collecting necessary information about the report topic.

Please accept my report and oblige thereby.

Yours truly

---

Md. Raihanul kabir

ID: - 141-14-1354

Major in Finance

## **CERTIFICATE**

This is to certify that the situation report on Risk diminution method in SME Finance of IDLC Finance restricted for partial fulfillment of the degree of Masters of Business Administration (MBA), major in Finance from the narcissus International University administered by Md. Raihanul Kabir, ID : 141-14-1354 below my oversight. No a part of the situation statement has been submitted for any degree credentials, title, or recognition before.

I wish his every success in life.

-----

**Mahbub Parvez**

**Associate Professor**

Faculty of Business and Entrepreneurship

Daffodil International University

# Acknowledgement

At first, I might prefer to specific our deepest feeling to Almighty God for giving America the strength to complete the task inside the timetable time.

I would prefer to offer my deep feeling, compliments and thanks from the core of my heart to internship supervisor Mr. Mahbub Parvez associate professor (Daffodil International University) and my advisor whose constant supervising and leadership enabled me to organize this statement. i'm indebted to him for his wonderful support associate degreeed steerage throughout the study and for providing me such a chance to arrange an internship Report on "Risk diminution method in SME Finance of IDLC Finance Limited". While not his useful leadership, the completion of this theme was impossible. i might prefer to place my feeling to the 60 minutes of IDLC Finance restricted to alter American state to whole my spot in their honored organization. terribly specific thanks goes to Mr. Raiyan Rakib, Assistant govt, Credit Risk Administration, IDLC political economy restricted . Mehidi Hasan, Senior Officer, Credit Risk Management, IDLC economics restricted, for serving to me all told part of the internship methodology. i'm terribly glad to Mizanur Rahman, Harun-or-Rasid, Masudur Rahman, Enamul Haque, Masud Rana, Mirajul Islam and Eyakub Ali for their facilitate whenever required throughout my internship tenure. i'm appreciative to Adnan Rashid and Avijit Barua for his or her support throughout my internship period. Their overwhelming support for my internship gave me the inspiration to try and do a stronger statement. throughout my preparation of the theme work I even have come back to terribly useful bit of various persons (respondents from IDLC Finance Limited) & friends World Health Organization lend their thoughts, time & caring supervising to amplify the report's contents. i would like to convey my heartiest feeling to them for his or her necessary responses.

Finally, a quiet stream of thanks is for our most adorned folks whose blessings are continuously with United States during this windy earth.

# **Executive Summary**

IDLC finance restricted may be a major NBFIs who is taking part in very important role for SME funding in Bangladesh. SME plays a awfully vital role in money development of Bangladesh. As major commerce of IDLC Finance restricted is providing SME loan facilities to the trade in conjunction with differing kinds of loan to individuality and organization so risk is related to each and each product they're providing. Risk is that the component of insecurity or chance of collapse that prevail in any trade operation in anyplace, in each mode and at whenever. within the economic arena, enterprise risks will be broadly speaking categorised as Credit Risk, Operational Risk, Marketplace Risk and alternative risk. Credit risk is that the chance that a recipient or counter party can fail to fulfill determined obligation. Therefore organization credit risk for economical administration of a FI has step by step become the foremost crucial task. IDLC investment has its own methodology to mitigate credit risk. They produce an appraisal statement that shows the ability of the recipient and attainable risk joined to the loan however the chance will be mitigate. Besides the appraisal statement IDLC maintain data regarding past recipient during a code named "Flex cube with "Flex cube "information. furthermore IDLC offers highest precedence to the CIB (Credit info bureau) statement. If the statement isn't sensible and doesn't replicate the ability of the commerce than IDLC doesn't economic science in this business. This statement contains the total operate of credit risk association in SME funding and at the top I offer some suggestion for higher presentation of credit risk administration section of IDLC economics section.

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# **Chapter -1**

## **Introductory Part**

## **1.1 INTRODUCTION**

The improvement of economic marketplace has been receiving heightened attention from the policy-makers in present years. One rationalization dishonesty within the basic shift of increase strategy replicate within the nearly universal embrace of the personal sector as an engine of economic process. the govt in each developed and increasing country, the worldwide economic association that exert tremendous influence on the policy-making equipment of accelerating countries and, to an excellent extent, the scholar have all connected along as ardent advocate of personal entrepreneurship. IDLC Finance Ltd, a chief money association of the country achieved necessary increase altogether areas of commerce up to Second quarter of the year 2017. IDLC began its action in 1985 because the first leasing corporation in Bangladesh. In 1995, IDLC was licenced as a financial institution by the country's middle bank and through the last twenty years, the corporate has mature in tandem bicycle with the country's growing money technique. The company's big selection products and services range from retail goods like home and automobile loans, company and SME product as well as lease and term loan, structured political economy services starting from syndications to capital restructuring and capital market services. the corporate conjointly reinforced its presence within the country's increasing exchange with launching a subsidiary-IDLC Securities Limited-which is giving full-fledged brokerage service for retail and institutional customers.

## **1.2 ORIGIN OF THE REPORT**

Since sensible orientation is an fundamental a part of the MBA degree necessity i used to be deputed by the daffodil International University (DIU) to IDLC Finance restricted to require world subject matter of the behavior of the association. throughout my internship at IDLC Finance restricted I actually have encounter with completely different perform of the corporate. From them I actually have decisive to figure within the field of Credit Risk organization (CRM) and giving individual stress on Credit information Bureau (CIB) statement. This statement has been originated because the course necessity of the MBA program. I hope the statement can provides a clear plan concerning the behavior and role of Credit Risk administration in reducing the chance connected with the lease and loan thereby maintaining the IDLC's awareness.

## **1.2 OBJECTIVE OF THE REOPRT**

The objective of the statement is to induce an exact plan concerning how CRM plays a significant role in management the chance connected with every and each product and services of IDLC Finance restricted. the particular objectives are as follows:

1. To know the condition of Credit Risk administration structure.
2. To learn about the whole CRM method for SME loan facility in IDLC Finance Limited.
3. To categorize the decision making process to mitigate credit risk for SME Loan facility in IDLC Finance Limited.
4. To suggest about the possible change for the CRM process.
5. To know the present condition and growth of the SME division.

## **1.4 METHODOLOGY OF THE STUDY**

It is one amongst the essential elements to arrange a winning statement. Analysis has been created on the premise of the objectives mention before within the context of "Risk reduction method in SME Finance of IDLC Finance Limited" The paper are going to be written on the premise of knowledge collect from primary and secondary supply.

(i) Primary Data: I actually have collected the primary info straight from the corporate with the assistance of my officer. I talked with business to grasp concerning the detail concerning the services of the IDLC finance. I conjointly collected originate the appraisal statement of various loans Discussion with my Association supervisor, speech with SME division staff and my team.

(ii) For the completion of this learning, secondary information has been collected. the most supply of secondary records are:

- Yearly statement of IDLC Finance Limited.
- Information from published reports of SEC, DSE
- Website of IDLC Finance Limited.
- Different Books, Journals, Periodicals, News Papers etc.

## **1.5 Limitation of the of Study**

To make a statement a variety of aspects and experiences are wanted. But I have faced some barriers for making a whole and wonderful statement. These boundaries which hamper my work, are as follows:

- Trouble in access data of its domestic operation.
- Non-Availability of some before and newest information.
- Some information was withdrawn to maintain the privacy of the association.

I was placed for only around six months of time & working like a regular worker hindered the opportunity to put the effort for the statement. The time span was not enough e to learn all the behavior of the association properly. Therefore, it was very hard to carry out the full study.

# **Chapter -2**

## **Organizational Part**

## 2.1 An overview of IDLC Finance Limited

IDLC Finance limited started its action within the year 1985 because the found out leasing company on build simple lease funding and capital investment in industrial division. Over the years, the corporate has evolved itself as a multi-product non-banking establishment providing wide selection of product and services. Over the last 20 years IDLC has contributed persistently within the country's conversion into a increasing country and has emerged as Bangladesh's leading multi product economic organization. the corporate currently offers a mess of numerous economic services and resolution to each institutional and person purchasers to cater for his or her single obligation.

Throughout its history, IDLC continuously thrives to supply its purchasers the most effective economic resolution with success, ably and ethically. IDLC has been prize the "A+" score by Credit Rating and knowledge Services Ltd. (CRISL), the most rating for any native organization, so far. it's conjointly been award the initial prize for the "Best revealed financial Records: by establishment of chartered Accountants of Bangladesh (ICAB).

### History of IDLC

On might 23rd 1985, the IDLC of Bangladesh limited was enclosed as a venture public Ld. with the international cooperation of 5 foreign and 3 domestic financial institution. Now, IDLC is one amongst the highest twenty firms within the country with variety of factory-made merchandise lines. the corporate has approved capital of BDT 1,000,000,000.00/- (10,000,000.00 shares of Bangladeshi monetary unit. one hundred each) and paid up capital of BDT two hundred,000,000.00/- (2,000,000.00 common stock of BDT one hundred each).

The company maneuvered its strategic focus to service diversification in 1994 by launching its deposits schemes. In 1997, IDLC introduced land funding and Short term funding. throughout the amount of 1998 and 2006, company} broadened its activities into the areas of corporate funding, underwriting, issue management, syndication and alternative investment banking connected services and evolve as a really multi product financial institution.

### Key Milestones of IDLC

The Signposts of IDLC 's journey are given below chronologically:

**May 23, 1985** : Integration of the company.

**February 22, 1986**: Commencement of leasing Business.

**May 18, 1986** : Signing of first lease.

**October 01, 1990**: Oppenning of Chittagong Branch.

**March 20, 1993**: Listing in Dhaka Stock Exchange.

September 10, 1994: Certified by Bangladesh Bank for Deposit Collection.

**February 07, 1995**: Licensed as non-banking financial institution. Under FinancialInstitution Act-1993 of Bangladesh Bank.

**July 02, 1995** : Licensed by Bangladesh Bank as offshore investor in Export processing zones (EPZ).

**November 25, 1996**: Listing in Chittagong stock exchange.

**May 27, 1997** : Commencement of House Finance and Short term Economics operation.

January 22, 1998: Certified as Merchant Banker by Securities and Exchange Commission.

January 22, 1998: Certified as Merchant Banker By Securities and Exchange Commission.

**January 15, 1999**: Commencement of Corporate finance and Merchant Banking Action.

**December 05, 2000**: Exceeded Taka 1 billion mark of yearly lease execution.

**May 22, 2002** : Arranged the biggest ever lease syndication amounting Taka 950 million by the corporate Finance Unit.

**June 29, 2004** : Establish of Gulshan area office.

**November 22, 2004**: Launching of Investment Administration Services “Cap Invest”.

February 7, 2005: Issuance of First Securitized Zero Voucher Bond by IDLC Securitization Trust 2005.

**January 2, 2005**: Opening of SME focused at Bogra area office.

**April 6, 2006** : Opening of Uttara area office.

**May 18, 2006** : Opening of Commercial Banking area office in the port city Chittagong.

**July 1, 2006**: Reallocation of Company’s Register and Corporate Head Office at 57, Gulshan Avenue.

September 18, 2006: Commencement of operation of IDLC Securities Limited, a totally owned subsidiary of IDLC.

August 5, 2007: Company name changed to IDLC Economics Limited from Industrial Development Leasing Company of Bangladesh Limited.

December 3, 2007: IDLC Securities Limited, Chittagong Branch commenced operation.

**December 18, 2007**: IDLC Securities Limited, DOHS, opened Dhaka Branch.

**January 6, 2009**: Opening of Sylhet Area office

**August 26, 2009**: Opening of Gazipur SME Booth

**February 3, 2010**: IDLC started its operation at Narayanganj Area office

**February 24, 2010**: IDLC inauguration of Savar Branch

**August 8, 2010**: IDLC opened its 2nd branch in Chittagong at Nandankanon

**October 27, 2010**: IDLC stepped in Comilla area office

**December 23, 2010**: IDLC inaugurated its Narsingdi area office

**December 27, 2010**: Opening of Keranigonj Area office

**June 15, 2011**: IDLC started its operation at Mirpur Area office

**August 9, 2011**: Inauguration of Tongi Area office

**August 16, 2011**: Commencement of operation of IDLC Investments Ltd., a wholly owned subsidiary of IDLC

**January 18, 2012**: Opening of the Jessore Area office.

**June 08, 2014**: Opening of the Khulna Area office.

**October 18, 2014**: Opening of the Bhulta Area office.

**November 10, 2014**: Opening of the Natore Area office.

**April 11, 2016**: Opening of the Hobianj Area office.

**April 19, 2016**: Opening of the Kushtia Area office.

**May 31, 2016:** Opening of the Ranpur Area office.  
**August 09, 2016:** Launching of Easy Invest  
**August 24, 2016:** Opening of the Mymensingh Area office.  
**May 23, 2017:** Launch of IDLC's first Open End Mutual Fund - IDLC Balanced Fund  
**October 29, 2017:** Opening of Rajshahi Area office.  
**October 30, 2017:** Soft Opening of Faridpur Area office.  
**November 16, 2017:** Opening of Noakhali Area office.  
**November 28, 2017:** Opening of Elephant Road Area office.  
**December 03, 2017:** Opening of Barisal Area office.

## **Mission, Vision and Objective of IDLC Finance**

IDLC defines its **mission** report as:

“We will focus on value increase, superior client experience and sustainable business practices.”

For clients: “Relentless pursuit of client pleasure through delivery of top quality services.”

For Shareholders: “Maximize shareholders’ assets through sustained come back on their investments.”

For Employees: “Provide job pleasure by creation IDLC a middle of excellence with opportunity for career development.”

The **Vision** of IDLC is acknowledged as:

“We will be the best economic brand in the country.”

IDLC’s core values are:

- Integrity
- Trust and Respect
- Eco-friendly
- Simplicity
- Customer Focus
- Equal Opportunity
- Passion

## **Shareholding construction IDLC Economics**

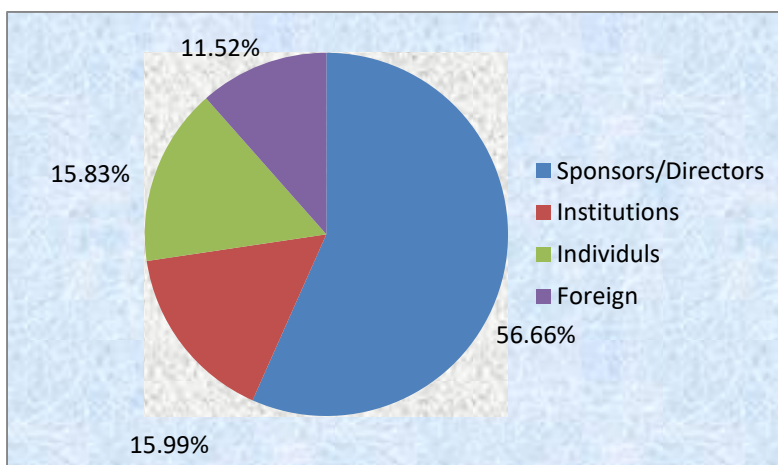
**IDLC was incorporated as a combined venture public limited corporation in the year 1985.** Among two foreign and two native economic establishment foreign institution holds 47.3% of IDLC shares. local sponsors and customary public hold the remainder 52.7% of the share. Institutional share holding comprising of economic organization helps increase through sharing of expertise and skilled approach at the best rule makes level. transient profile of share holding organization is given below:

The Shareholding structure of IDLC Ltd is given below:



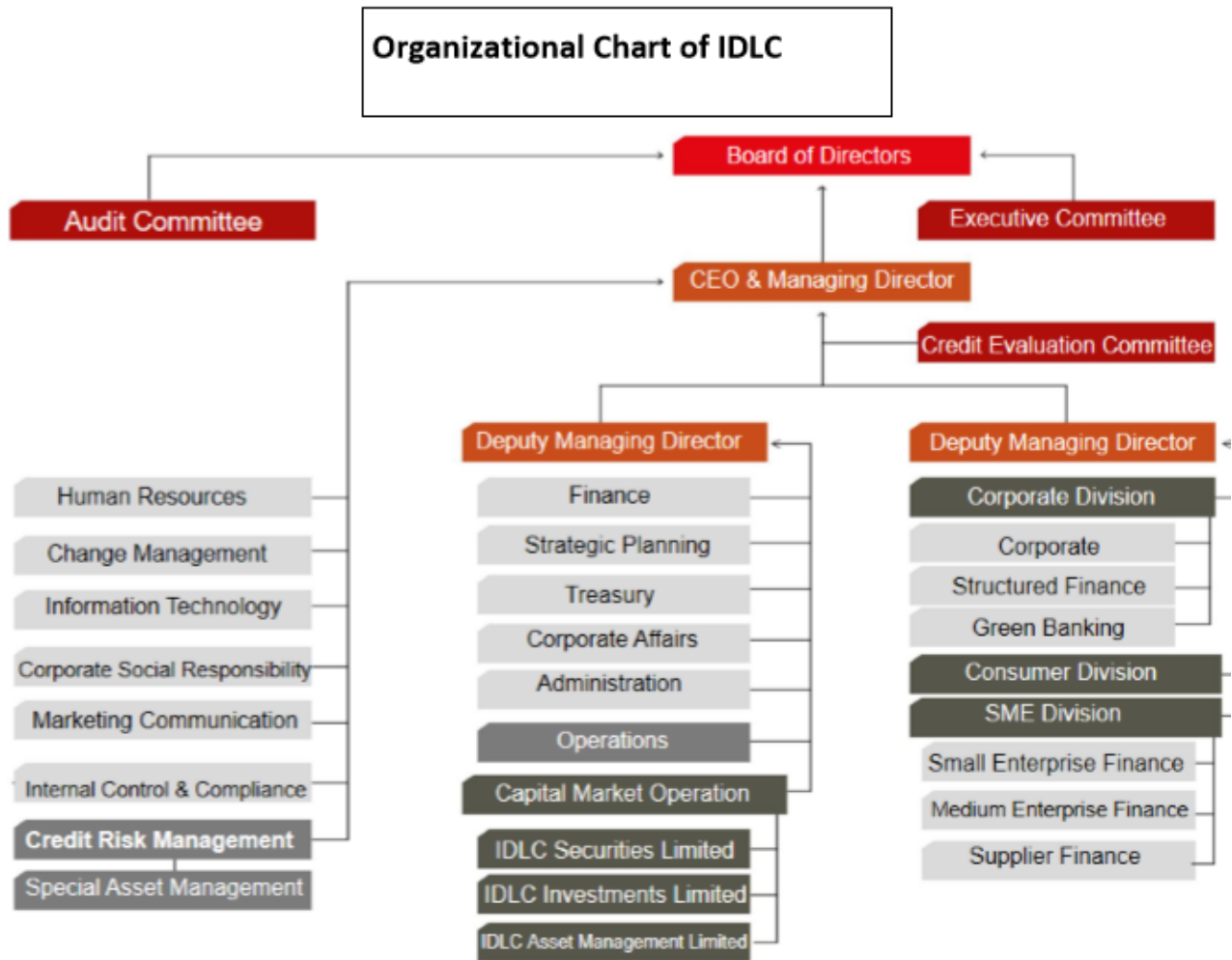
**Table 1: Shareholding Composition of IDLC Finance**

Sl. No.	Name of Shareholders	% of total Shares
<b>1</b>	<b>SPONSORS/DIRECTORS</b>	
	The City Bank Limite	<b>23.21</b>
	<b>Transcom Group</b>	<b>13.33</b>
	Es-kayef Bangladesh Limited	8.00
	Trans Craft Limited	4.01
	Bangladesh Lamps Limited	1.32
	Sadharan Bima Corporation	<b>7.62</b>
	Mercantile Bank Limited	<b>5.50</b>
	Reliance Insurance Company Limited	<b>7.00</b>
	<b>Sub-total</b>	<b>56.66</b>
<b>2</b>	<b>GENERAL</b>	
	<b>Institutions</b>	
	Bangladesh Fund	1.68
	Investment Corporation of Bangladesh	1.39
	Marina Apparels Limited	1.00
	Other Institutions	11.92
	<b>Sub-total</b>	<b>15.99</b>
<b>3</b>	<b>Individuals</b>	
	General Public(Individuals )	<b>15.83</b>
<b>4</b>	<b>Foreign:Both Institutions &amp; Individuals</b>	<b>11.52</b>
	<b>Total Holdings</b>	<b>100.00</b>



Source : IDLC Annual Report 2018

## Organogram of IDLC Finance



## 2. Products & Services of IDLC Finance Ltd.

IDLC is that the biggest financial institution (non-banking) and one among the key investment and businessperson NBFIs of Bangladesh. IDLC offers a large cluster of monetary service for each company and retail customers. IDLC has the most important multi-item Non-Bank financial organisation of Bangladesh with much rise to center in company, Consumer, SME areas and Capital Market.

### Small and Medium Enterprise (SME)

#### ► Small Enterprise Finance

- Small Enterprise Loan/ Lease

- Seasonal Loan
- Women Entrepreneur Loan
- SME Shachal Loan
- SME Surakkha
- SME Deposit
- ▶ **Medium Enterprise Finance**
  - Medium Enterprise Loan/Lease
  - Commercial automobile economics
  - Machinery Lease
  - Healthcare Finance
  - Revolving Short Term Loan
- ▶ **Supplier & 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 Solutions**
  - Loan / Lease Syndication
  - Private Placement of Equity
  - Preference Shares
  - Project/ Infrastructure Finance
  - Bond
  - Foreign Currency Loan
  - Refinancing of Special Funds
  - Mergers & Acquisitions
  - Joint Venture Matchmaking
  - Balance Sheet Restructuring
  - Feasibility Study
  - Securitization of Assets
  - Structured Solutions

## Capital Markets

### ▶ IDLC Securities Limited

- Brokerage Service
- CDBL Service

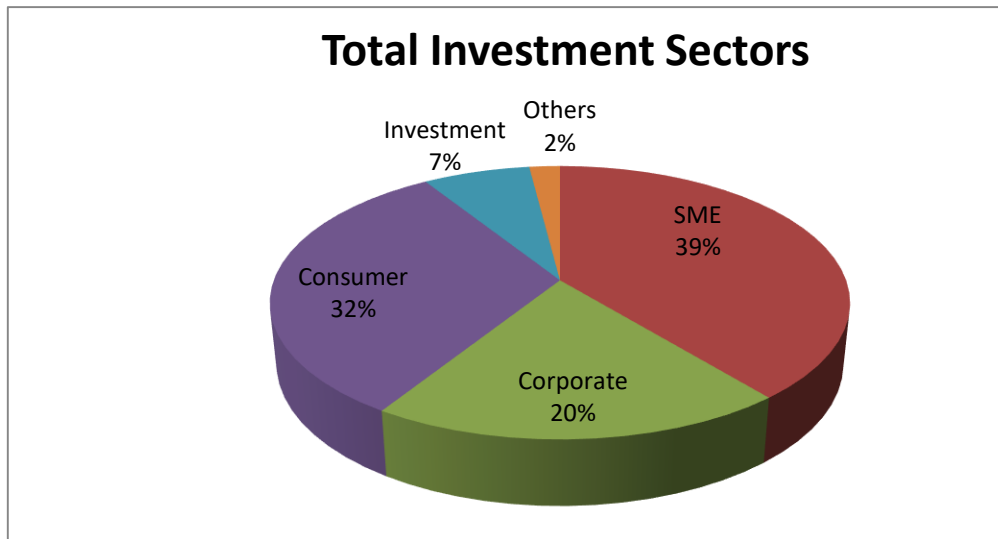
### ▶ IDLC Investments Limited

- Margin Loan Operations (Cap Invest)
- Discretionary Portfolio Management
- Corporate Advisory
- Issue Management
- Underwriting
- Research

## 3. Financial Performance of IDLC Finance Ltd.

### 1. Whole Investment Sectors:

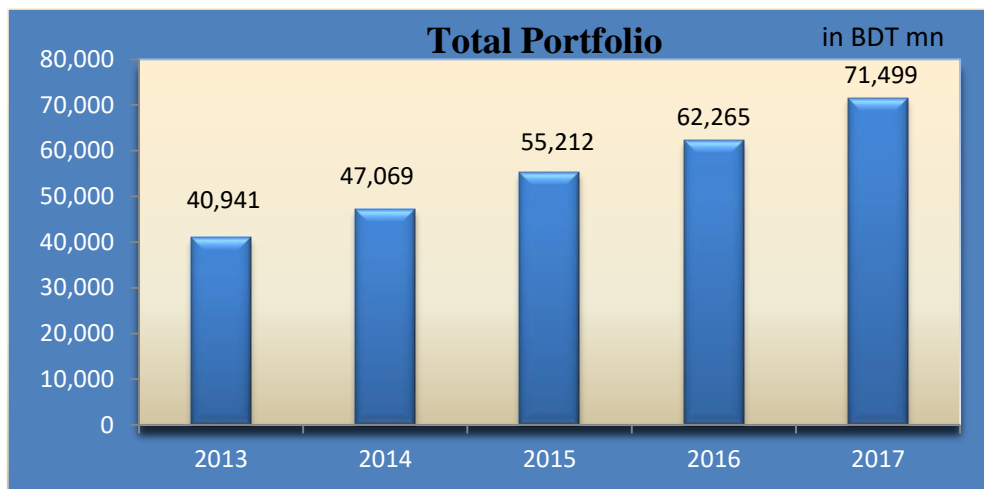
IDLC Finance limited primarily a SME targeted in market. tho' it's a SME centered money Association however it's robust presence in capital market, retail merchandise, company merchandise et al. IDLC Finance restricted current donation is 39th, 20%, 32%, 7-membered and 2 in SME, Corporate, Consumer, Investment & others. during this figure we are able to simply notice that IDLC Finance restricted is extremely abundant active in SME sector sector. currently the corporate tries to expand its SME market additional in Bangladesh.



### 2. Total Portfolio:

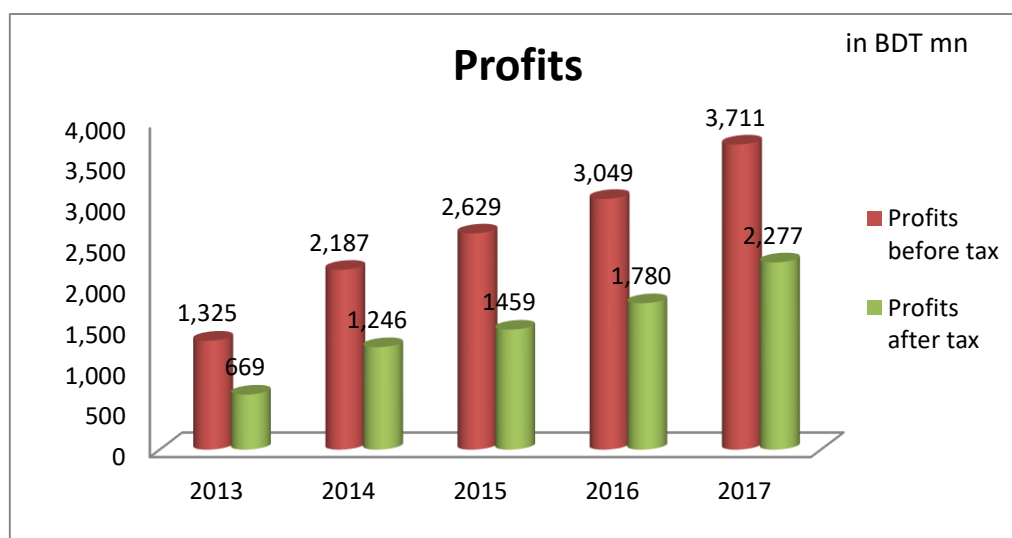
Total portfolio of an organization comprises all investment in numerous i.e. SME, Corporate, Customer, Investment and others. IDLC's chief portion funding is in SME division. In 2013 company's total portfolio was BDT 40,941 cr. within the terribly begin of 2014 the portfolio of the corporate was BDT 47,069 cr. The gift of the corporate carries on until 2017. the corporate win

beautiful amount of portfolio in 3 years. The portfolio of the corporate is BDT 55,212, BDT 62,265 & BDT 71,499 in 2014, 2016, 2017 severally. The corporate holds its steady growth for the nowadays. Total portfolio comparison of IDLC Finance restricted has given in below graph:



### 3. Profits:

Profits assess profits statement to search out whether or not a corporation has the power to make financial gain from its action. This primarily shows however well a corporation will turn out financial gain from its operation. Investors generally use profitableness ratios to evaluate the company's return on investment. These profitableness ratios conjointly show however well the corporation is exploitation the property. In 2013 the in operation financial gain of IDLC was BDT 1325cr and financial gain once tax is BDT 669 cr. In 2014 the corporate earn BDT 2187 as in operation financial gain whereas financial gain after tax multiplied from BDT 669 cr to BDT 1246 chromium. then the corporate n"qtiperar" id="tip\_37" title="to increase|to extend">to extend financial gain (operation tax income) for the 2015 to 2017. The financial gain of IDLC Finance limited has given below graph:



#### **4. SWOT Analysis of IDLC**

The SWOT Investigation for IDLC can be described as follows:

##### **Strengths**

1. Reputation and brand image: IDLC is well-reputed company and has urbanized a brand image that's recognized by the business. IDLC is an worldwide joint-venture company and its shareholders have long records of property and responsibility in their various fields. IDLC is one in every of the revered names in economic marketplace of Bangla Desh. Since 1985, IDLC has marked its journey through gap of assorted innovative product and therefore meeting the requirements of huge company customers.
2. Product portfolio: IDLC has various product portfolio for patrons that created them second to nothing in Non-Banking Economic business.
3. Quality client Portfolio: IDLC features a Credit Risk Administration section of International commonplace that modify the corporate to keep up a top quality consumer portfolio.
4. Human Resources: The Corporation has competent Administration cluster. the general employees of the corporate is taken into account as key resources for the organization. IDLC personnel are motivated , competent, energetic and inventive. the corporate give utmost support in terms of each mechanical and ethical.
5. Operational efficiency: IDLC give changed answer to their shoppers to regulate their would like. the corporate processes the application quickly and simply. The sanction and expenditure of the loans are hassle-free.
6. Worker Empowerment: IDLC decision-making is free flowing and clear. Every appraiser is given ample opportunity to exercise his/her creativity in

accommodating a client. Approvers area unit open for any spoken language and sanction is essentially base upon commendation of the appraisers. affordable suggestion aren't solely reception however are extraordinarily appreciated. Effective suggestion by the employees is straight away set for desed. This flexibility has helped IDLC tons in shaping up its operation into a rank of potency and to be a wonderful performing artist just in case of loan recovery.

## **Weaknesses**

1. High value of fund: IDLC as the other NBFIs have high value of fund as compared to banks. As NBFIs will take deposit for fewer than one year from any persons as banks will do, the deposit base of IDLC isn't robust enough to scale back the typical value of fund.
2. Additional specialize in Volume: though IDLC has department known as Credit Risk Management to watch the quality price of the corporate, still the corporate from time to time for the sake of financial gain and past affiliation offer loans to shoppers who at the tip hamper the portfolio quality of IDLC.
3. An excessive amount of Diversification: an excessive amount of diversification of product and services providing hamper the main focus on the core services of the association.
4. Less individuals in Liability Marketing: IDLC still employs smaller variety of labor forces for the harmful responsibility promoting as compared to banks and NBFIs like DBH.

## **Opportunities**

1. Continuity of Liberalization: Administration has n"qtiperar" id="tip\_37" title="financial system|economic system|national economy|financial set-up">national economy towards additional market orientation. This inspired equally native and foreign capitalist to speculate in potential division. The privatization set up of state is probably going to possess optimistic impact on manufacture.
2. Foreign Investment in Prospective Sector: In recent days foreign investment within the varied prospective sectors has multiplied phenomenally. This produce a decent chance for all money establishments to enter within the booming new sector.
3. Native banks inadequacy: one in all the most important reason for thriving of leasing corporation in Bangladesh is native banks unskillfulness of providing project loan. This development still persists.

## **Threats**

1. Threat from banks: In recent times banks are getting in leasing and SME business that is generally thought-about as functions of Non-Banking money establishments.
2. Regularity management of administration: The legal framework of Bangladesh is relatively weak. Lack of effective proceeding laws and manual land recording methodology creates chance of forgery and dispute. this might hinder the loan recovery from the defaulter.

# **Chapter -3**

## **Learning Part**



## 3.01 SME in Bangladesh

### Introduction

We have come upon several definition of SMEs in Bangladesh. in line with the producing Rule document from the Ministry of business, a touch enterprise is outlined as a registered enterprise with but 50 staff, excluding the house units, and with a set capital investment of but BDT one hundred million (approxiate USD one.8 million). A Medium Enterprise is outlined as a registered enterprise with between 50 and 99 workers, and/or with a set capital investment between BDT one hundred million and BDT three hundred million ( between USD one.8 million and USD 5.4 million).

“SMEs are a really heterogeneous cluster in People's Republic of Bangladesh, comprising a large form of companies ofvillage handicraft manufacturers, little machine retailers, restaurants, printing presses, bicycle cart assembly, cartwheels, electrical merchandise, engineering workshops, footwear, artificial merchandise, plastic spectacle frames, print retailers, specialised silk weaving, craft retailers owned by girls, artifact provide, food preparation, little grocery stores, paper assortment, etc. within the context of Bangladesh, a little of ready-made vesture producing enterprises conjointly falls below SME sector. A typical SME in People's Republic of Bangladesh necessitate on the average investment of solely BDT 36,000/- compared to BDT one,338,000/- necessary by a big-scale business in generate one unit of employment.

In spite of their employment generate role SMEs in Bangladesh, as within the relax of South Asia, don't notice their potential as vital contributors to property growth and job creating - each of that are notably needed during this region to offset deep persistent financial condition levels. world trade relaxation, maybe specifically alternative forces, is reshaping the economies, transfer new prospects, however conjointly presenting new challenges. this is applicable to Bangladesh SMEs in addition.”

### Constraints on SME Growth

The lack of growth of SMEs in People's Republic of Bangladesh may be attributed to many issue, including:

- Persistent low levels of value that have precluded structure of economical bodily infrastructure required to grow competitive business;
- Historical governance structures that have allowed the few well-linked to reap and keep the bulk of monetary wealth, and controlled access for the majority;
- Fairly prolonged histories of administration ownership/manage of best, non-farm resources, management that's solely currently being transferred part to non-public sector.

- Evolving however still extremely fragmented policy/regulatory frameworks that have nonetheless to form the low-level barriers to commerce entry, operation, and trade that support SME growth;
- Underdevelopment of core market support establishment that deliver necessary public and private services, together with several government, economic and teaching services;
- Unduly controlled access for private SMEs to credit services of banks, due in huge half to government-dominated money sectors and politically motivated credit policies, whether or not loaning targets or directed subsidies;
- Immature business growth services (BDS) like data, training, and consulting services. this is often because of common constraints to private zone increase, to government dominance of the marketplace. In some places it's conjointly because of massive donor flows of sponsored funds that have distorted markets and jam-pawncked out property personal division state of affairs of BDS.

### **Government's Role towards SME**

Industrial development has been try within the past below wide divergent policy regimes. the early part of industrial enterprise was characterised by an herald substitution policy and a powerful regulative role of the govt.. Later the govt. have turned, though not continually wholeheartedly, to plug orienting freeing. vital accomplishment in population manage, food construction, infrastructure progress and stabilization of the macro-economy haven't been in the middle of sufficiently quicker economic process and also the employment generation required to alleviate financial condition by enhancing the role of the non-public, i.e. SME sector.

The Administration has recognized within the producing Policy document adopted in 1999, that the commercial policy ought to be updated to attain the target of fast industrial growth and to realize a larger business share of the gross domestic product. Support of little and medium enterprises is a component of this policy.

The World Bank states in its Bangladesh Country Strategy document that the Government's initial precedence should be to boost speculation by giving the individual division the reform assurance essential to take a position in sell abroad orienting developed behavior and by instantly and considerably rising implementation of public investment in infrastructure and human resource development. The Administration second priority ought to be to create the freeing of the private sector way more effective, whereas third priority ought to be to enter into long run arrangements with domestic and overseas capitalist. the globe Bank emphasizes completion of the long delayed privatization program.

### **SME funding in Bangladesh**

A investigation of the little and small enterprise operative within the capital of Bangladesh metropolitan space showed that enterprises that needed between USD 4,000/- to USD 200,000/- funding don't have any access to at least one variety of economic services further as normally skilled services embody selling, accounting and skilled support services.

The main supply of funding for SMEs in Asian nation is loans from member of the family and friends. These loans usually take time to assemble and square measure so not useful in times of pressing state of affairs.

When SMEs communicate the private banks, they primarily make out to get loans to hide their assets wants. however solely a touch portion of them in reality get loans from the banks. Trade credit is that the second most vital resource for operating cash to tons of very little entrepreneurs. however it's offer at a way higher rate of interest than loans from the banks. Moneylenders also are enclosed within the list of supply of finances for SMEs, however are solely utilized in pressing state of affairs things. Finally, trafficker credit for wealth things, alternative trade owner, venture wealth company etc. are alternative supply of SME finance.

The reasons normally provided by the SMEs why purchase of fastened property don't seem to be finance by banks are:

- The enterprises lack good collateral securities,
- Informal loans are faster and more suitable
- Interest rates charged by relations and friends are lower.

For many SMEs applying for ceremonial credit is an innovative act. correct documents will take appreciable time and energy once an enterpriser isn't well-known with such methodology.

The higher than yet, during a survey commissioned as background work for SEDF, the highest hassle sited by manager of SMEs was lack of access to SME loans. during a world bank learn of ten personal banks in Bangladesh in October 2000, solely four banks were active towards SMEs, the stay were usually targeted towards trade finance and loan to larger company.

The credit market in Bangladesh may be separated supported funding demand and entrée to finance. Now, micro-finance entity are facilitate activities requiring up to USD 4,000/-, and therefore the official business industry is finance credit superior than USD 200,000/-.

In an International Finance Corporation Appraisal Report for BRAC Bank, the Bangladesh banking market has been separated into four separate phase as shown beneath, just one of that is that the main aim market of the SEDF -plan, and whose credit desires are terribly massive as elaborate below cluster three.

#### Segment 1: Micro-credit

BRAC, Grameen, ASA, Proshika presently offer the micro-credit phase and diverse smaller NGO-financed schemes, through their micro-credit program. These are characterize by digit of vital issue. They usually exist as a part of a comprehensive program of progress behavior, numeration strength programs, social progress, education, mandatory savings schemes, and loans for business progress (usually on a sole-trader basis) and cluster support for borrowing. each member of the cluster assumes liability (moral, if not financial) for the opposite members' compensation obligations; the bi-weekly regular payment ends up in high real interest rates (e.g. twenty three – twenty five the simplest yield for a quoted V-J Day yearly price). usually the speed is significantly over this. the sole various is that the neighboring usurer, whose interest is commonly 40 – 50 – 60 minutes. As of 1998, on the brink of 10 million menage were participate during a variety of variety of a micro-credit program.

## **Segment 2: Micro- Enterprises (MELA)**

The MELA program is an example of the second section. it had been establish by BRAC in December 1996 with the primary loans disbursed early 1997. The target cluster consists of little commerce homeowners (sole proprietors). The loan are higher than the micro-finance, however below the tiny enterprise level. it had been felt that there was a wish for loans larger than BDT 10,000 (USD 200) for finance very little business. MELA's customers comprise 2 groups: (1) those that have graduate from BRAC micro-credit programs - these checking account for hour of the total digit, however solely 45 you look after the entire pay amount; (2) "the public" – outlined as those customers that had no before society with BRAC. an investigation of the MELA programs indicate that almost all of its shoppers were of the only proprietors' type: operational their businesses with a bit digit of workers and closely attached the commerce. The investigation indicated that these businesses have a limited profitableness.

## **Segment 3: SME Market**

The SME Market represent credit desires starting from USD 4,000 – USD 200,000. This cluster is calculable to be huge, and under-served. Estimates from Bangladesh|Bangla Desh|East Pakistan|Asian country|Asian nation} very little and tiny house Industries Corporation (BSCIC) denote that in Bangladesh there ar over 200,000 viable very little enterprises that are registered with the BSCIC as member with credit desires within the vary of USD 5,000 – USD 150,000. This translate into an approximate aim marketplace size of roughly USD five billion to USD 15 billion. in an exceedingly state wherever the quality base of the financial set-up is calculable at USD 15 billion, this represents a considerably giant market. it's quite plain but that it's the minor finish of SME phase that is that the majority underserved. the majority PCB loans to the SME division goes to middle sized enterprises, and few administration schemes directed towards the tiny enterprises appear to purpose on the intention.

## **03.02 Approaches of SME Financing by IDLC**

### **1 Introduction**

Successful SME funding strategy could be a key winner issue for IDLC. For facilitating SME finance, IDLC had earlier established a divide division, specifically 'Emerging company Division', in early 2003. basically below this partition, IDLC has in the main supported lesser company customers. In 2006, this division was renamed to SME division to succeed in dead set truly very little phase of the market.

In order to faucet the minor phase of the market and strengthen the SME funding, IDLC has launched Retail SME business merchandise. during this niche, IDLC has been able to do commerce with a senior unfold, and therefore the accessibility of low-cost supply of funds within the type of refinancing from Bangladesh Bank has contribute to superior profitableness.

Around 78 of IDLC's customers belong to SME phase supported mounted assets investment size, and SME shopper share 56 of IDLC's total loan portfolio. Moreover, in late 2005, IDLC established a space workplace in Bogra, particularly targeted to SME finance.

In October 2005, IDLC launch 3 Retail SME Schemes, besides its customary SME lease funding facility, Machinery Loan.

## 2.1 Business Loan

Trade loan is provided within the type of term loan or work assets loan. This loan is ranged from BDT 500,000/- to BDT a pair of,500,000/-. chronicle of a minimum of one year of winning action could be a should for availing this finance facility. This loan has been provided for the tenure of 12 to 36 months with compensation mode of monthly installment. This facility is devised to groom very little entrepreneurs to future leaders within the business. Up to BDT 1,000,000/- funding is offer with no collateral below this theme. Hypothecation of Inventory and machineries, and individual guarantee from 2 acceptable persons and the other security as deemed work is taken as security beneath this theme.

## 2.2 Double Loan

Below this product, loan amounting to double of the F. D. Roosevelt amount is provided and if the commerce is found to be possible, that any safety might not be insisted on. This loan is additionally offer within the type of term funding, and therefore the vary of political economy is same as trade loan. The theme offer finance for the very best tenure of 60 months, and usually two years of prospering business operation is needed to be eligible to achieve it. the protection condition is same as commerce loan.

## 2.3 Women Entrepreneurs Loan

This theme is specially devised to finance the victorious businesses of girls entrepreneurs, and to gift within the freeing of girls within the civilization. Any girl businessperson with a minimum of two years of victorious trade action will profit this loan, wherever no collateral is needed up to BDT 2,500,000/-. All the specification of this theme is that the same as bank loan. Bangladesh Bank provides special refinancing capability for this theme, creation the borrowing rate considerably low.

## 2.4 Machinery Loan (Lease)

This is very lease finance capability for SME shoppers. IDLC offers the foremost competitive and versatile lease funding for all kinds of industrial and repair tools. In instrumentation Loan, the client has the complete freedom to decide on the instrumentation and dealer and additionally to mend terms and scenario, count price. Lease rent is strong-minded on the premise of acquisition worth and lease period. Lease amount sometimes ranges from one to 4 years. different conditions are same as commerce loan. client is important to rearrange for the amount of money on the hired instrumentation for the whole lease amount. he's necessary to sustain the chartered tools in smart in operation scenario, although insurance shall cowl most of the abnormal risks.

### **04.03 Credit Risk Management of SME Finance**

#### Introduction

This division details basic credit risk administration policies and methods that are steered for adoption by all FIs in Bangladesh. The rule contained herein define universal principles that are planned to

control the implementation of additional elaborated loaning procedures and risk grading systems at intervals individual FIs. it's the generally liability of FI's Board to approve FI's credit danger policy and vital policies regarding credit risk and its management that ought to be supported the FI's overall business strategy. to stay it gift, the generally rule and strategy has got to be reviewed by the Board, ideally yearly.

## 1. Credit Risk Policy

Each FI ought to have a credit risk rule deed that ought to embrace risk identification, risk measuring, risk grading/ aggregation technique, reportage and risk manage/ mitigation techniques, documentation, legal problems and administration of hassle services. The elder administration of the FI ought to develop and establish credit policies and credit administration procedures as a section of overall credit risk administration framework and find those accepted from Board. Such policy and procedures shall give leadership to the employees on a range of variety of loaning numeration company, SME, Consumer, Housing etc. Credit risk policies should:

- Provide full and formalized credit evaluation/ appraisal method.
- Provide risk identification, size, observation and manage.
- Define aim markets, risk acceptance criteria, credit approval right, credit origination/ protection procedures and rule for portfolio management.
- Be communicated to branches/controlling offices. All dealing officers ought to clearly notice the FI's approach for credit allow and may be control liable for obliging with established policies and procedures
- Clearly spell out roles and responsibilities of units/staff concerned in origination and administration of credit

In order to be effective, these policy should be clear and communicate down the road. additional any necessary deviation/exception to those policy should be communicate to the highest management/Board and corrective measures ought to be taken. it's the responsibility of elder administration to make sure effective implementation of those policies punctually approved by the Board.

## 2. Credit Risk Strategy

The terribly first purpose of FI's credit strategy is to come to a decision the danger appetency of the FI. Once it's strong-minded the FI may develop an idea to optimize come whereas maintenance credit risk at intervals preset limits. it's necessary that FIs offer due kindness to their aim marketplace whereas production credit risk policy. The credit procedures ought to aim to urge an in-depth understanding of the FI's shoppers, their identification & their businesses so as to completely apprehend their customers.

- Every FI ought to increase, with the allow of its Board, its own credit risk strategy or set up that establish the objectives guiding the FI's credit-granting activities and adopt essential policies/ procedures for conducting such activities. This strategy ought to spell out plainly the organization's credit appetency and therefore the acceptable level of risk-reward trade-off for its behavior
- The policy would, therefore, accommodates a report of the FI's temperament to grant facilities base on the sort of monetary activity, environmental web site, money, market, maturity and anticipated

gain. this may basically translate into the classification of aim market and business sectors, most popular levels of diversification and concentration, value|the value|the price} of capital in granting credit and therefore the cost of unhealthy debts

- The strategy ought to delineate FI's overall risk tolerance in reference to credit risk, the institution's conceive to grant credit supported a range of consumer segments and product, money sector, geographical position, cash and maturity
- The policy ought to give continuity in move toward and take into consideration cyclic side of state economic methodology and therefore the ensuing shift in composition and excellence of overall credit portfolio. whereas the strategy would be reviewed sporadically and amended, as deemed necessary, it ought to be viable in future and thru a range of monetary cycle.
- Senior administration of a FI shall be accountable for implementing the credit risk strategy approved by the Board.

### **Lending Guidelines**

All FIs ought to have established "Lending Guidelines" that plainly define the senior management's sight of trade progress priorities and also the terms and scenario that ought to be adhered to so as for facilities to be allowable. The disposition tips ought to be modernised a minimum of yearly to mirror modification within the financial outlook and also the evolution of the FI's facility portfolio, and be distributed to any or all lending/marketing officers. The lend policy ought to be accepted by the Organization Director/CEO & Board of administrators of the FI supported the endorsement of the FI's Head of Credit Risk Management and also the Head of Business Units.

Any departure or deviation from the disposition tips ought to be expressly known in credit applications and a clarification for approval provided. Approval of facilities that don't go with disposition rule ought to be restricted to the FI's Head of Credit or Administration Executive/CEO or Board of administrators.

The disposition rule ought to provide the key fundamentals for account officers/relationship managers (RM) to formulate their recommendations for approval, and will embrace the following:

- Industry and Business phase Focus

The disposition rule ought to plainly understand the commerce/industry sector that ought to represent the bulk of the FI's facility portfolio. for every separation, a clear indication of the FI's appetency for growth ought to be indicated (as an example, Textiles: Grow, Cement: Maintain, Construction: Shrink). this may give essential bearing to the FI's market workers.

- Types of Facilities

The type of amenities that are allowable ought to be clearly indicate, like Lease, Term Loan, Home Loan, and dealing Capital etc.

- Single Borrower/Group Limits/Syndication

Details of the FI's Single Borrower/Group limits ought to be enclosed as per Bangla Desh Bank rule. FIs may need to line up additional ancient criterion during this think about

- Sector disposition Caps

An main part of credit risk administration is to determine exposure limits for single obligors and group of joined obligors. FIs are expected to develop their own limit configuration whereas remaining inside the exposure limits set by Bangladesh Bank. the scale of the boundaries ought to be supported the credit power of the obligor, real condition of credit, money scenario and also the institution's risk tolerance. applicable limits ought to be set for various product and behavior. FIs might establish limits for an explicit trade, money division or region to avoid attention risk.

- Product disposal Caps

FIs ought to establish a particular creation exposure cap to avoid over attention in anyone factory-made product.

- Discouraged Business varieties

FIs ought to define industries or disposition behavior that are discouraged. The FI might have isolated sector to be discouraged supported the following:

### **03.04 Credit Assessment & Risk Grading of SME Finance**

#### **1 Credit Assessment**

A thorough credit and risk activity ought to be conduct before the granting of a facility, and a minimum of yearly thenceforth for all facilities. The results of this assessment ought to be given during a Credit submission that originates from the link executive/account officer ("RM"), and is reviewed by Credit Risk Management (CRM) for identification and probable mitigation of risks. The RM ought to be the owner of the shopper link, and should be control accountable to confirm the correctness of the entire credit request submitted for approval. RMs should be well-known with the FI's loaning Rule and may behavior due diligence on new borrowers, chief, and sponsor.

It is necessary that RMs understand their purchasers and conduct due diligence on new borrowers, principal, and sponsor to confirm such party are really United Nations agency they represent themselves to be. All FIs ought to have established understand Your client (KYC) and concealing rule that ought to be adhered to the least bit times.

Credit application ought to summaries the implications of the RMs risk assessment and embody, as a lowest, the subsequent details:

- Quantity and type of facility(s) proposed
- Reason of facilities
- Facility construction (Tenor, Covenants, Repayment Schedule, Interest)
- Security Arrangements



- Government and Regulatory Policies
- Economic Risks

In addition, the following risk areas should be addressed:

- **Borrower Analysis:** the majority shareholders, administration team and cluster or affiliate firms ought to be assessed. Any problems concerning lack of administration depth, sophisticated possession structure or inter-group dealings ought to be addressed , and risks eased.
- **Industry Analysis:** The enter danger issue of the borrower's trade ought to be assessed. Any issue relating to the borrower's location within the trade, overall trade issues or competitive forces ought to be addressed and also the strengths and weaknesses of the receiver relative to its competition ought to be known.
- **Projected monetary Performance:** wherever term facilities (tenor one year) are being projected, a projection of the borrower's future economic activities ought to be provided, indicating associate degree investigation of the sufficiency of money flow to service debt repayments. amenities shouldn't be approved if projected income is insufficient to pay back debts.
- **Credit Background:** application ought to plainly state the standing of the receiver within the CIB (Credit data Bureau) report. The request ought to conjointly hold responsibility position with alternative Banks and FI's and conjointly ought to get their opinion of past credit behavior.
- **Account Conduct:**For existing borrowers, the historic performance in gathering refund obligations (trade payments, cheques, interest and main payments, etc) ought to be assessed.
- **Mitigating Factor:** Mitigating issue for risks recognized within the credit analysis ought to be known. attainable risks accommodates, however don't seem to be restricted to: border property and/or volatility, high debt load (leverage/gearing), overstocking or human issue; speedy increase, acquisition or growth; new trade line/product expansion; administration amendment or succession issue; consumer or provider concentration; and lack of clearness or trade problems.
- **Facility Structure:** the quantity and tenors of finance projected ought to be even supported the projected reimbursement talent and facility reason. Excessive tenor or amount respect to trade wants increase the danger of fund diversion and should adversely impact the borrower's reimbursement talent.
- **Purpose of Credit:** FIs have to be compelled to certify that the credit is employed for the rationale it absolutely was borrowed. wherever the obligor has utilize funds for purpose not shown within the new proposal, FIs ought to take steps to work out the implications on trustworthiness. just in case of company facilities wherever receiver own cluster of company such trade becomes additional essential. FIs ought to catalog such connected firms and conduct credit assessment on consolidated/group basis.
- **Security:** a present valuation of collateral ought to be get and also the quality and right of method of security being projected ought to be assessed internally and ideally by a 3rd party valued. Amenities shouldn't be approved primarily based only on safety. Adequacy and also the extent of the sum of money ought to be assess.

- Type of management on money Flow: The application ought to contain and assess if there's any manage on the borrowers income for securing the reimbursement. this might accommodates payment assignment from export proceed, payment assignment from customers of the receiver etc.
- Exit Option: Credit request ought to plainly state the exit choice from the receiver just in case of early classification of decay of grading of the receiver.
- Name Lending: Credit proposals shouldn't be unduly influenced by associate degree over reliance on the sponsoring principal's standing, report freelance means that, or their perceived disposition to inject cash into a spread of trade enterprises just in case of want. This condition ought to be demoralized and treated with nice caution. Rather, credit proposals and also the granting of services ought to be supported sound originals, support by an intensive economic and risk investigation.

## **Risk Grading**

The Credit Risk Grading (CRG) could be a collective clarification supported the pre-specified scale and mirror the first credit-risk for a given exposure. A Credit Risk Grading deploys a digit/ alphabet/ image as a primary outline indicator of risks related to a credit exposure. Credit Risk Grading is that the basic module for increasing a Credit Risk administration methodology.

Credit risk grading is an important tool for credit risk administration because it helps the Economic establishment to understand a range of dimensions of risk concerned in several credit transactions. The aggregation of such grade across the borrowers, behavior and therefore the lines of commerce will provide higher assessment of the worth of credit portfolio of a FI. The credit risk grade methodology is significant to require call each at the pre-sanction stage yet as post-sanction stage.

At the post-sanction stage, the FI will create a call regarding the depth of the review or renewal, frequency of review, regularity of the grading, and alternative precautions to be taken. Risk grading ought to be assigned at the putting in place of loaning, and updated a minimum of yearly. FIs should, however, analysis grade as and once adverse events happen A divide operate sovereign of ability origination ought to review risk grading. As a part of portfolio watching, FIs ought to generate data on credit introduction by risk grade. Adequate trend and immigration investigation ought to even be conduct to create out any worsening in credit quality. FIs could establish limits for risk grades to spotlight attentiveness specifically grading bands.

### **Functions of Credit Risk Grading**

Well-managed credit risk grading system promote economic organization security and dependability by facilitating knowledgeable decision-making. Grading systems calculate credit risk and differentiate temperament credits and teams of credits by the chance they cause. this enables FI administration and examiners to watch modification and trend in risk levels. The progress conjointly permits FI administration to handle risk to optimize return.

### **Use of Credit Risk Grading**

- The Credit Risk Grading matrix permits submission of uniform standards to credits to confirm a standard standardized approach to assess the standard of individuality obligor, credit portfolio of a unit, line of commerce, the FI as a full.

- CRG would supply a quantitative measuring of risk that portrays the chance level of a recipient and change fast deciding,
- As evident, the CRG outputs would be relevant for individual credit selection, whereby either a recipient or a specific exposure/facility is rated. the opposite call would be connected to evaluation (credit-spread) and specific options of the credit facility. These would mostly represent obligor level investigation.
- Risk grading would even be relevant for observation and observation, interior MIS associate degreed assessing the mixture risk profile of an FI. it's conjointly relevant for portfolio level analysis.
- CRG would supply a quantitative framework for assessing the provisioning condition of a FI's credit portfolio.

#### **Risk Grading for Corporate and SME**

- The predictable CRG scale is appropriate for both new and existing borrowers.
- It consists of 8 categories, of which categories 1 to 5 represent various grade of acceptable credit risk and 6 to 8 represent unacceptable credit risk. However, individual FI depending on their risk appetite may implement more stringent rule.

<b>GRADING</b>	<b>SHORT NAME</b>	<b>NUMBER</b>
<b>Superior</b>	SUP	1
<b>Good</b>	GD	2
<b>Acceptable</b>	ACCPT	3
<b>Marginal/Watchlist</b>	MG/WL	4
<b>Special Mention</b>	SM	5
<b>Sub standard</b>	SS	6
<b>Doubtful</b>	DF	7
<b>Bad &amp; Loss</b>	BL	8

Having considered the significance of credit risk grading, it becomes imperative for the economic method to carefully increase a credit danger grade model, which meet the objective outlined above.

## **Risk Rating for Consumer Lending**

For shopper lending, FIs might adopt credit-scoring models for process facility application and observation credit worth. FIs ought to apply the on top of principles within the administration of rating models. wherever the model is comparatively new, FIs ought to stick with it to topic credit applications to rigorous appraisal till the model has stable.

### **Approval Authority**

All profitable behavior, that commit the FI to deliver risk sensitive product, want previous approval by certified committee/persons. A FI might have the Board, administration/managerial Committee, and Credit Committees for reviewing and approve finance proposal. The FI might have threshold supported proportion of equity that set limits for review and approval of credit proposals in selection committee. The Board should approve the brink limit. Besides, approval power is also delegated more to person govt supported safety, the executive's data and skill to confirm responsibility and fast call within the approval method. The involved CRM officers ought to be the owner of their sovereign review and identification of risks supported the application.

The power to sanction/approve facilities should be clearly delegated by the administration Executive/CEO & Board to the company Center and more right down to the Business Units. Business Units are sovereign and accountable for administration all trade behavior among the accepted limits. However, the involved RM of the sale team / branch employees accountable for facility sales ought to be the owner of the shopper association, and should be control accountable to form certain the accuracy of the power application submit for approval. they need to be accustomed to the FI's loaning rule and may behavior due diligence on new borrowers, reason of the facilities and sponsor.

The following rule should apply in the approval/sanction of facilities:

Credit approval power should be delegated in writing from the MD/CEO & Board (as appropriate), approved by recipient, and records of all delegation maintained in CRM

Delegated approval authorities should be reviewed yearly by MD/CEO/Board

The credit approval perform ought to be divide from the market/connection government (RM) perform.

Approvals should be proof in writing, or by electronic autograph. Sanction report should be reserved on file with the application

All credit risks should be approved by government at intervals the facility limit delegated to them by the MD/CEO or Board

All applications should be reviewed by the pinnacle of Credit Risk Administration for sovereign assessment and classification risks and approved by own committees or persons delegated by Board or CEO/MD

Respective CRM officers are going to be command chargeable for classification of risk.

The RM ought to be the owner of the shopper affiliation, and should be command in charge to create positive the accuracy of the total application submitted for approval. RMs should be acquainted with the FI's loaning rule and will behavior due diligence on new borrowers, principal, and guarantors

The total promotion to any receiver or borrowing cluster should be wont to decide the approval authority needed.

Any credit supply that doesn't befits loaning rule, notwithstanding amount, ought to be named Head of Credit Risk administration for review and approved by CEO/MD or Board

MD/CEO should support and monitor any cross-border promotion risk

A journal abstract of all new facilities accepted, renewed, enhanced, and an inventory of proposals declined stating reasons therefrom is also rumored by CRM to the CEO/MD

Any breaches of loaning authority ought to be rumored to MD/CEO, Head of Internal manage, and Head of CRM be expedient to initial statement to the pinnacle of the audited social control unit on the audit's findings within the course of a final gathering and to supply the chance to notice on the findings, with these notes to be taken under consideration within the audit statement. afterwards, all man of affairs and section heads are enlightened consequently.

It is the task of interior audit to monitor the swift modification of any troubles detected in the audit as well as the implementation of its recommendation in a appropriate form, and if essential to schedule a follow-up audit

assessment of interior audit should, at a lowest, randomly test all aspects of credit risk administration in order to decide that:

- Credit behavior are in compliance with the FI's credit and bookkeeping policy and procedures, and with the laws and regulations to which these credit behavior are subjected
  - Existing credit facilities are duly certified, and are accurately recorded and suitably valued on the books of the FI
  - Credit exposures are suitably rated
  - Credit records are total
  - Potential trouble account are being identified on a timely basis and decide whether the FI's provision for credit sufferers is sufficient.
  - Credit risk administration information are adequate and accurate
  - development in the quality of credit portfolio
  - Appraise top administration
- The follow audit areas are particularly relevant:

- All operational and trade system within the credit organization
- Risk administration and risk management manage
- The interior review method
- The FI's internal rules and directives
- All mandatory audit areas (particularly large-exposure savings, money laundering and compliance, diligence, coverage necessities, securities trade book)
- Credit audit is conducted on-site, i.e. at the local office which has appraise the advance and where the main active loan limits are made available
- Reports on behavior of economic report of allocated limits are to be called from the corresponding branches
- Credit auditor may visit borrowers' factory/ office premise.

#### **04.05 Approval Process in SME Finance of IDLC Finance**

The approval process should reinforce the segregation of Relationship administration/selling from the approving power. The responsibility for making ready the application ought to rest with the RM among the business unit. Credit Applications ought to be instructed for approval by the RM team and forwarded to CRM for his or her review and assessment. The credit ought to after be approved by correct sanction cluster.

FIs may need to line up completely different thresholds, higher than that, the suggestion of the top of trade unit is critical before onward suggestion to CRM and resultant appropriate power for sanction. In adding, FIs may need to line up native credit centers among the support team to handle schedule approvals.

The suggested process for all the trade units is as follows:

- Application forward to Zonal Office or Head Office for evaluation by the ZCRO or HCRO
- Advise the review to recommending branches
- ZCRO/HCRO supports & forward to Head of Trade Units (HOBU) within their delegated power and to Chief of Credit Risk (HOCR) for onward suggestion
- HOCR advise the analysis to ZCRO
- HOCR & HOBU maintain & forwarded to Credit Committee
- Credit Committee advises the judgment as per delegated power to HOCR & HOBU
- Credit Group forwards the suggestion to EC/Board for their support within their own power.

- EC/Board advise the decision to HO CR & HO BU

The sanction technique might vary among FI’s looking on the kinds of products and exposure. for instance, disposition to company and SME’s is usually unstructured because of varied nature of risk exposure. On the opposite hand, client disposition is usually structured by standardizing the factory-made product and risk facet of persons. intrinsically application for client disposition could also be done among the pinnacle of shopper unit subject to delegation of authority to try to to therefore.

**Indicative Delegated Approval Authority Levels**

Credit Commission	Up to 10% of Assets
Administration Commission	Up to 20% of Assets
Board	Above 20% of Assets

**1.1 Credit Administration**

The Credit Administration operate is essential in making certain that correct certification and approvals are in place before the disbursement of economic facilities. For this reason, it’s necessary that the perform of Credit Management be raspigly segregate from association Management/Marketing so as to avoid the likelihood of controls being compromised or problems not being highlighted at the acceptable level.

Ongoing Management of the credit portfolio is associate degree necessary a part of the credit methodology. Credit administration perform is principally a back workplace action that support and management extension and protection of credit. A typical credit management unit perform following function:

1.2 Documentation

It is the responsibility of credit government to form positive completeness of certification (facility agreement, guarantee, relocate of title of collaterals etc) in accordance with approved terms and scenario. Outstanding papers ought to be caterpillar-tracked and followed up to form positive execution and receipt.

Security documents are prepared in accordance with support terms and are lawfully enforceable. customary facility certification that has been review by legal recommendation ought to be utilized in all cases. Exceptions ought to be brought up legal recommendation for recommendation supported sanction from associate degree applicable manager in CRM.

1.3 Disbursement

Disbursement below amenities ought to solely be created once all safety documentation is in place. CIB statement ought to reflect/consist of the name of all the lenders with facility, boundary & outstanding. All formalities relating to massive facilities & facilities to

administrators guide by Bangla Desh Bank circulars & connected a part of money establishments Act ought to be complied with. All Credit Sanction terms should be met before disbursement.

#### 1.4 Credit observation

After the ability is accepted and draw down permissible, the ability ought to be continually watched over. These embrace keeping track of borrowers' compliance with credit terms, characteristic close to the start signs of irregularity, conduct periodic valuation of collateral and observation timely repayments.

#### 1.5 Facility compensation

The obligors ought to be communicate to the face of your time as and once the chief/markup installment becomes due. Any exceptions like non-payment or late payment ought to be labelled and communicate to the administration. correct report and update ought to even be created when reception.

#### 1.6 tutelary Duties

Facility disbursement and therefore the coaching and room of safety papers ought to be central within the space credit center. appropriate insurance coverage ought to be maintain (and revived on a timely basis) on assets pledged as collateral. Security documentation ought to be command underneath strict manage, ideally in latched fire-resistive room.

#### 1.7 Compliance needs

All necessary Bangla Desh Bank returns ought to be submit within the right format during a timely manner. Bangladesh Bank circulars/system square measure maintain centrally, and suggested to any or all relevant section to form definite agreement. All third party service supplier (values, lawyers, insurers, CA corporations etc.) square measure accepted associate degree presentation are review on an annual basis. FIs ought to be brought up Bangla Desh Bank circular outlining received outer audit corporations that square measure acceptable.

#### Credit observation

To minimize credit losses, observation procedures and systems ought to be in place that gives an early suggestion of the deteriorating economic strength of a recipient. At a smallest, system ought to be in situ to report the subsequent exceptions to relevant government in CRM and RM team:

- Past due chief or interest payments, overdue trade bills, description excesses, and breach of facility covenants
- Non-receipts of economic statement on a daily basis and any covenant breaches or exceptions created
- Action not taken on time for findings of any interior, outside or regulator inspection/audit

1. All recipient relations/facilities square measure reviewed and accepted through the submission of a Credit Report a minimum of annually.

Computer system should be capable to supply the on top of data for central/head workplace similarly as native review. wherever automatic technique aren't obtainable, a manual technique ought to have the potential to supply correct exception data. Exceptions ought to be followed up and corrective action taken during a timely manner before the account deteriorates any.



### **Early Alert Process**

An Early Alert Account is one that has risks or potential weaknesses of a objects nature requiring observation, supervising, or shut attention by management.

If these weaknesses are left uncorrected, they will lead to deterioration of the compensation prospects for the plus or within the FI's credit location at some future date with a possible prospect of being downgraded to CRG 5 or worse (Impaired status), at intervals successive twelve months.

Early identification, prompt coverage and proactive administration of Early Alert money account are chief credit responsibilities of all association Managers and should be undertaken on

### **Credit Recovery**

The Recovery Unit (RU) of CRM ought to straight manage monetary records with sustained worsening (a Risk Rating of Sub normal (6) or worse). FIs may need to transfer EXIT monetary records ranked 4-5 to the ru for economical exit supported suggestion of CRM and company FI. Whenever an monetary credit is handed over from Relationship Administration to ru, a Handover/Downgrade listing ought to be finished.

#### **The RU's primary function are:**

- Determine Account Action Plan/Recovery Strategy
- Pursue all option to maximize recovery, counting placing clients into receivership or liquidation as appropriate
- Ensure sufficient and timely loan loss food are made based on actual and projected losses**
- Regular review of grade 6 or worse accounts

The administration of trouble facilities (NPLs) must be a dynamic technique, and the linked strategy jointly with the adequacy of supplies must be regularly reviewed. A process should be established to share the **education educated** from the skill of credit losses in order to update the lending rule.

### **Account Transfer Procedures**

Within seven days of an account being downgraded to substandard (grade 6), a call for participation for Action and a handover/downgrade listing ought to be completed by the RM and forwarded to metal for acknowledgment. The account ought to be appointed to associate account representative inside the ru, United Nations agency ought to review all documentation, meet the client, and prepare a Classified Loan Review Report (CLR) inside fifteen days of the transfer. The CLR ought to be approved by the pinnacle of Credit, and derived to the pinnacle of company FI and to the Branch/office wherever the power was originally sanctioned. this first CLR ought to highlight any documentation problems, facility structure weaknesses, projected effort strategy, and may request support for any loan failure provisions that are essential.

Improvement Units ought to check that that the subsequent is dispensed once associate degree account is classify as Sub commonplace or worse:

- Facilities are withdrawn or reimbursement is demand as appropriate. Any drawings or advance ought to be controlled, and solely accepted when careful scrutiny and sanction from appropriate institution.
- CIB news is updated in step with Bangladesh Bank rule and also the borrower's Risk Grade is modified as appropriate.
- Loan failure provisions are taken supported power Sale price (FSV)
- Prompt legal act is taken if the recipient is unhelpful

### Rescheduling

FI's ought to follow clear rule for rescheduling of their bother accounts and monitor consequently

Rescheduling of bother money records ought to be geared toward a timely resolution of real or expected bother money records with a read to effecting highest improvement inside an affordable amount of your time.

### Purpose of Rescheduling:

- (i) To give for borrower's modified trade state of affairs
- (ii) For higher due management
- (iii) For friendly agreement of hassle money records

### Cases for Rescheduling:

Rescheduling would be thought of solely below the subsequent cases-

Overdue has been accumulate or probably to be accumulated thanks to amendment in trade condition for internal or outside issue and also the receiver isn't any means able to pay the whole accumulated due during a single shot.

The recipient ought to be in action and also the property have a productive worth and life for mating the outstanding liability.

The recipient should be in a position of and comply with offer as per revise arrangement.

### Modes of Rescheduling:

Rescheduling may be done through adopt one or further of the subsequent means that.

- Extension of finance term maintenance loaning rate unchanged

- Reduction of loaning rate maintenance finance term unchanged
- Both reduction of loaning rate and extension of finance term
- Bodily shifting of payment set up
- Deferment of payment for a short time with or while not extending the adulthood date (this is also a short lived relief to stop the inevitable collapse of a company).

### **Non-Performing Loan (NPL) monitoring**

On a quarterly basis, a Classified Loan Review (CLR) ought to be prepared by the ru bourgeois to update the situation of the achievement/recovery set up, review and assess the adequacy of provisions, and modify the FI's policy as appropriate. The Board might decide the amount of power for approving the CLR supported share of equity.

### **NPL Provisioning and Write Off**

The guidelines established by Bangladesh Bank for CIB reportage, provisioning and write off of unhealthy and uncertain debts, and suspension of interest ought to be followed altogether cases. These requirements are rock bottom, and FIs are inspired to adopt additional rigorous provisioning/write off policy. in spite of the length of your time a facility is overdue, provisions ought to be raised beside the important and expected losses at the time they're calculable. The approval to require provisions, write offs, or unleash of provisions/upgrade of an account ought to be restricted to the pinnacle of Credit or MD/CEO supported recommendation from the Recovery Unit. The Request for Action (RFA) or CLR news set up ought to be accustomed recommend provisions, write-offs or release/upgrade.

The ru bourgeois ought to verify the Force Sale worth (FSV) for economic report grade 6 or worse. Any insufficiency of the Force Sale worth compare to total facility outstanding ought to be absolutely offer for once an account is downgraded to grade 7. wherever the shopper isn't cooperative, no worth ought to be assigned to the in operation income in determinative Force Sale value.

## **03.06 Managing Credit Risk in SME funding**

### **Introduction**

Little & Medium Enterprise (LME) plays a important role within the money increase and progress of a state. Actually, SME works because the platform for job creation, financial gain generation, and progress of forward and backward engineering linkage and fulfillment of native social wants. SMEs occupy a singular location within the economy of Bangladesh. in the main personal division progress depends on them.

The investigate findings of “NATIONAL personal SECTOR SURVEY OF ENTERPRISESIN BANGLADESH-2003” (a study conducted by USAID, DFID and CIDA) indicates that SMEs gift to the extent of 25th of the GDP in Bangladesh, concerning four-hundredth of the Gross producing Output, eightieth of commercial Jobs and around 25th of the overall labor pool and also the total digit of SME bourgeois is concerning 06 Million. Among different answer the learn conclude that SME division is considerably a speedy increase orienting separation to flourish in Bangladesh.

Bangladesh could be a densely inhabited state. Job chance here is incredibly scanty; Joblessness rate is roughly 400th. Population below poor line is one year. Therefore, it's the prime concern for the state to get profits through creating of job chance & employment. Creation of job chance at huge scale by US isn't attainable.

There are several tiny and medium entrepreneurs within the state that have innovative plan, spirit and potentiality to try to to one thing productive for native customers furthermore as sell abroad. they will generate profits and gift to the GDP. they will additionally provide service to different voters additionally.

Development and growth of tiny and Medium Enterprise is significant for national growth. Such variety of useful enterprising receiver cannot go an extended method for need of economic support as a result of they need no access to institutional credit facilities, as they can't offer collateral safety as demand for such credit capability. IDLC Finance limited is committed to play positive role within the overall socioeconomic progress of the state.

### **Rationale for SME funding**

a) The scope of investment of NBFIs is slowly getting to be restricted because of stiff competition and tiny economic system compared to huge digit of Economical establishment. however the SME phase remains nearly virgin, untapped and uncovered by institutional finance and in and of itself there's ample scope and smart chance for investment thus on take the profit to extend the portfolio offer a viable and large lend outlet for IDLC.

b) Effective rate of come on funding is relatively higher over the big loan due to lower talks strength of the purchasers. the large shoppers ar normally value responsive and exhausting bargainers. in and of itself the earn value from SME finance is higher.

c) Large customers don't typically supply tangible securities and if given, terribly insignificant compared to the credit volume to hide the danger. therefore the credit danger is incredibly tall just in case of huge Loan owing to the large introduction with none tangible security. Hence, IDLC is place into serious bother just in case of default creating

recovery of the loan. however just in case of SME, the danger is relatively low because the loan quantity is little / moderate and in most cases is roofed by safety. Above all, disposition risk of IDLC is minimize, because the portfolio is varied with tiny credit size.

d) Under SME it's easier to recover IDLC's money by mercantilism / foreclosing the protection because the shoppers haven't that a lot of power to face court case not like huge shoppers.

### Definition of tiny & Medium Enterprise (SME)

Little Enterprise (LE) means that an entity, ideally not a public company, doesn't occupy quite 60 individuals (if it's producing concern) and twenty individuals (if it's a mercantilism concern) and 30 persons (if it's a repair concern) and additionally fulfill the subsequent criteria:

- a) A repair concern with total property at value excluding land and construction from Tk.50,000 to Tk.30.00 lac.
- b) A mercantilism concern with total assets at value excluding land and building from Tk.50,000 to Tk.50.00 lac.
- c) A producing concern with total property at value excluding land and building from Tk.50,000 to Tk.1.00 crore.

Industry Classification	Manufacturing (Based on value/replacement cost of durable resources other than land and factory buildings)	Service & Trading (Based on number of workers work)
<b>Large</b>	> 100 million Taka	> 100
<b>Medium</b>	15-100 million Taka	25-100
<b>Small</b>	<15 million Taka	<25
<b>Cottage</b>	Industry in which members of a family are engaged part-time or full-time in production and service-oriented activities	

Ref.: Chapter 4, Industrial Policy 1999

### Customer phase

Initially, little entrepreneurs set at intervals the accessible space of our space workplace are going to be the targeted areas below this program. The entrepreneurs ought to have an existing profitable trade or a viable commerce arrange.

### Selection of Borrowers

- Little Enterprise funding, like different credit facilities should be subject to the Bank's risk administration methodology setup for this specific commerce. the strategy might embody, distinctive foundation of compensation and assessing consumer talent to repay, expected future

money flows, his/her past dealings with the bank, world wide web price and knowledge obtained from a Credit info Bureau of Bangladesh Bank. The bank should be able to classify the key drivers of their borrowers business, the key risk to their businesses and their risk mitigate.

- At the time of granting facility below a range of modes of little Enterprise funding, a written declaration shall be obtained from the receiver divulging details of varied facilities by currently obtained from different establishment to create certain that the total content in relevancy the compensation ability of the consumer doesn't exceed the logical restrictions as ordered down within the accepted policy of the bank still on facilitate avoid content having varied facilities.

## **Nationality**

The borrowing corporation/firm should be register in People's Republic of Bangladesh and share own by Bangladeshis. The candidate should be 100 pc in person closely-held, restricted and operate. The applicant's principal place of trade should be in Bangladesh.

## **Age Limit**

The age of the owner / partners / administrators should vary between twenty one years to 55 years.

## **Purpose**

SEs have immense jurisdiction covering food, leather, electronic, lightweight engineering, agro-based industries, fashion industry, trading, repair trade etc. The SEs additionally do a decent deal of subcontracting jobs for giant and medium scale industries, specially within the clothes space. It at the same time covers the areas of industrial, commercialism and services. Loans area unit disbursed within the SEs to fulfill the subsequent necessities:

- a. operating capital,
- b. buying of capital machinery;
- c. delivery truck / Transport for trade reason,
- d. Refurbishing office/Business premises,
- e. different eligible portfolio of the bank,
- f. Purchase of economic land, possession for brand spanking new venture.

## **Mode of funding**

Credit facilities area unit allowed within the variety of n"qtiperar" id="tip\_96" title="in the|within the">within the following modes:

- 1 Cash Credit,
- 2 SOD,
- 3 LIM / LTR,
- 4 Packing Credit,
- 5 Any variety of Term Loan

## **Portfolio structure of SME funding in IDLC**

Sector wise distribution of the SME portfolio of IDLC is given below. This distribution shows the distribution model of a number of the necessary sector.

### **03.07 Proposals for Effective CRM in SME funding**

#### **Introduction**

In Bangladesh, SME accommodates virtually 90th of the total industrial setup. SME contributes virtually 80th to 85th industrial employment, that is that the 25th of the entire employment of Bangladesh. SME accounts for 25th to 30 minutes of total gross domestic product. In terms valuable addition, SME contributes forty fifth to five hundredth of the entire worth addition of a year's total production. (Source: IDLC database).

The banking methodology that represent the core of the economic division of any state plays a dangerous role in transmittal financial rule impulses to the total economic methodology. Banking could be a business designed on risk. Yet, it's necessary to manage and minimize that danger.

From economic Institution's purpose of read, all the danger issue concerned within the SME sector are delineate below:

Inadequate quality base of the owner

Inadequate business data of the owner

Absence of formal accountancy methodology just in case of maintaining financials

High seasonality within the business

High competition within the business

Inadequate security coverage from the recipient

In terms of giant business chance and high recovery rate, SME sector is kind of a promising sector for monetary establishments to create the investment. To eliminate the danger factors considerably and therefore build a brand new ground for profitable investment, administration, central banks, and economic establishment ought to take into account the subsequent propositions.

- From the attitude of government and Policy-makers
- Central Bank Policy – Central information

Bangladesh Bank facilitates the monetary establishments in effective credit risk management by providing the services of CIB (Credit data Bureau). CIB maintains a central information for all the people and organizations, who have ever undertaken credit facility from economic

establishments. Borrowers' compensation pattern and history of credit accessibility will be found from CIB statement. This CIB report is totally necessary in resolution creating process of every credit facility.

At present, the CIB capability offered by the Bangladesh Bank includes a few very important flaws. The CIB statement doesn't contain the borrowing data and compensation behavior of the borrowers for the present quarter. As a result, monetary establishments got to believe the knowledge of past quarter to create disposal choices. This will increase the credit risk considerably as a receiver will become irregular in repaying loans or might have borrowed terribly recently from different monetary establishments, which might be unnoted throughout disbursing new credit facility. Little and medium enterprises are largely unknown within the monetary arena, thus, comprehensive data could be a should for funding these establishments. Moreover, it always takes over per week to get CIB report that comes' offline from Bangladesh Bank, that reduces the potency of monetary establishments in process credit facility.

Bangladesh Bank ought to take immediate steps to eradicate these flaws so as to alter the monetary establishments to manage credit risk effectively. CIB report ought to be created on-line for any officer of financial establishments to access any borrower's data instantly. What is more, competent and ample human resources got to be facilitating during this relevancy guarantee sleek flow of the operation.

#### Industry and Sector Analysis

Administration and also the financial organization got to come back up with the arrange to constructing a central cognitive content for the institution to prudent finance decision. Broadly, overall producing and sector investigation ought to be conducted by the intellectual and researchers. This investigation ought to be geared toward getting insights into the character, financial gain border, and business dynamics of various industries and sectors, still as assessing the strength, weakness, opportunities, and challenge of those phases.

#### Uniformity of Record

Records each|of each} business in every administration offices have to be compelled to be uniform. Selection ways that of recordkeeping sure result in discrepancy, and permits space for manipulation. As an example, a businessperson will say in public deflated citation of the foreign product to dodge extra duties. However enduring a standardized HS code could ascertain such observe are often evitable. Moreover, the restrictive bodies ought to offer confidence the organization and people to follow uniform accounting principles.

#### Training & Development

Besides policies and laws, the administration conjointly needs to certify the person resources of the financial establishments be trained and nurtured in such the way that credit risk are often decreased. Seminars and conference have to be compelled to be organized on a daily basis to form positive the economic establishment perceive the new challenges and exposures of credit risk of selection sector. Intensive coaching ought to get on the giving to make up hands for effective risk administration.



## Credit Rating

One of the effectual means that to extend the potency and potency of credit risk administration is to ascertain a credit rating procedure for prospective borrowers. freelance and notable rating agencies ought to be rent for credible credit rating. this may sure permit the economic organization to enlarge the potency in its deed considerably, and conjointly the value of borrowing can cut back considerably. Recently, BRAC Bank has come back to an contract with Dun , a notable British rating organization, for credit rating of little & middle enterprise. Such steps have to be compelled to be taken in broader perspective by the Administration.

### From the angle of economic establishments

The Board of administrators ought to have liability for approving and sporadically review the credit risk policy and vital credit risk policies of the bank. The strategy ought to mirror the bank's tolerance of risk and also the level of profitableness the bank expect to realize for acquisition a range of credit risks.

Senior Administration ought to have liability for implementing the credit risk strategy approved by the board of administrators and for developing the policies and procedures for distinctive, measure, watching and dominant credit risk. Such policy and procedures ought to address credit risk all told of the bank's behavior and at each the temperament credit and portfolio level.

Economic establishments ought to acknowledge and management credit risk inherent all told merchandise and behavior Economic establishments ought to make sure that the risks of merchandise and activities new them square measure topic to spare procedures and manage before being introduce or undertake, and approved ahead by the board of administrators or its acceptable committee.

Economic establishments should operate underneath sound, well-defined credit granting criteria. These criterion ought to incorporates a radical appreciate of the recipient or counter party, in addition because the purpose and structure of the credit, and its supply of reimbursement.

Economic establishments ought to establish overall credit limits at the extent of temperament borrowers and counter parties, and teams of connected counter parties that combination in comparable and vital manner dissimilar styles of exposures, each within the banking and mercantilism book and on and off the record.

Economic establishments ought to have a clearly-established methodology in situ for approving new credits in addition because the extension of existing credits.

Economic establishments ought to conduct sector wise study to understand a lot of concerning the trade flora and fauna of various SMEs, construct specialize credit risk parameters to judge the credit fun of SME customers a lot of properly and build customise credit assessment procedure for the SME consumer which is able to build the analysis method quicker and so modify the Economic establishments to upset a lot of SME shopper.

Economic establishments ought to have in place a way for the continued government of their a range of credit risk bearing portfolio.

Financial establishments should have in place a way for watching true of temperament credits, as well as determinative the adequacy of provisions and reserves.

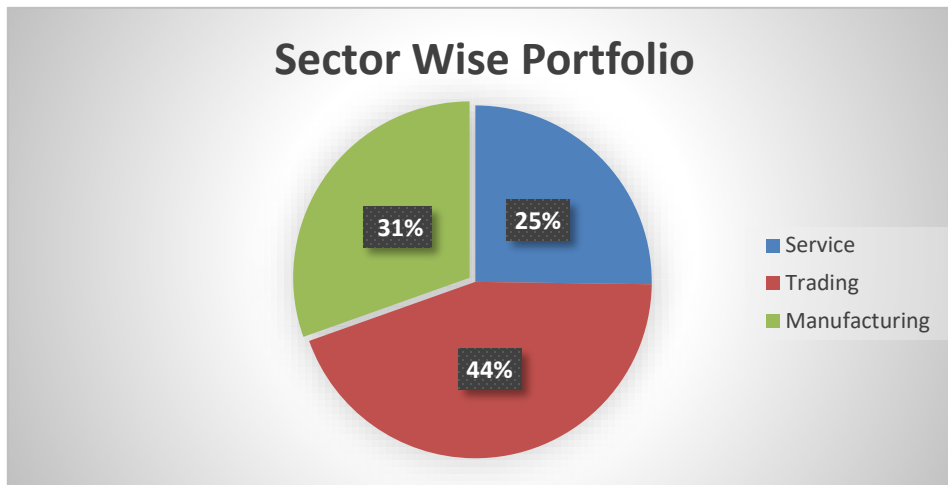
### 3.8 Performance of IDLC Finance in SME Sector

This statement is formed to indicate the expansion and therefore the performance of the Non-Bank money Institutes in Bangladesh particularly concerning IDLC. during this report as a neighborhood of NBFIs within the state has scrutinized and their performance has been analyzed. For this prime playing NBFIs within the state has been analyzed with a specific sector SME. As a one of the most effective Infrastructure Progress and Leasing Corporation IDLC Finance Ltd what's their overall performance in SME finance compare to all or any alternative NBFIs in Bangladesh. although I actually have done my berth in IDLC I had the possibility to look at the NBFIs sector and their performance and a few few interior news. Here i will be able to be largely discussing the sectors performance on the idea of their SME loan providing methodology and finish achieved to expand SME commerce in Bangladesh. furthermore i will be able to conjointly try and justify the need of increasing SME sector to develop our financial set-up and the way it will facilitate our country to be a property developing country. Despite having challenges, i attempted to provide this report with the maximum amount data as doable with the quantity of resources I had. IDLC finance Ltd may be a major NBFIs who is taking part in very important role for SME finance in Bangladesh. The trend of SME loan disbursement in context of IDLC finance is highest at commercialism division followed by industrial division and so repair division. SME plays a awfully vital role in money improvement of Bangladesh. As major trade of IDLC is providing SME loan facilities to the trade together with a range of style of loan to temperament and organization they're serving to to stay touching this improvement wheel in our state. Here during this statement i attempted to analysis what's SME and significance of it for our country. this state of affairs of SME of IDLC, quite factory-made product of SME giving by IDLC, its future chance and threat and customarily SME condition in Bangladesh and hassle facing by SME division, here i'm conjointly making an attempt to place some suggestion for IDLC Finance Ltd.

Here the table below represents the arena wise portfolio of SME finance.

Sector	Percentage
Service	25%

<b>Trading</b>	<b>44%</b>
<b>Manufacturing</b>	<b>31%</b>



Here it has physically powerful existence in Trading, then industrialized, and Service sector. IDLC Finance limited in SME sector existing contribution is 44%, 31%, 25%, in Trading, industrialized, & Service. In this figure we can easily find that IDLC Finance Limited is very much lively in SME sector. Now the company tries to make bigger its SME marketplace more in Bangladesh.

### NPL Trend of IDLC from 2013 to 2017

Banks/FI's rely upon borrowers to take care of their regular loan repayments as a significant supply of revenue. once a recipient has not created regular payments for a minimum of 90 days, the loan is taken into account a non performing arts loan, or NPL. The non performing arts loan magnitude relation, higher referred to as the NPL magnitude relation, is that the magnitude relation of quantity of nonperforming loans in a very bank's loan portfolio to the overall amount of outstanding loans the bank holds. The NPL magnitude relation measures the effectiveness of a bank in receiving reimbursement on its loan. In term of NPL ration IDLC stands a noteworthy location within the market. In 2013 the NPL magnitude relation of IDLC was 1.64% and it had hyperbolic NPL ration from 1.64% to 2.02% in 2014. however in 2015 and 2016 the market situation was terribly different. The currency marketplace visaged crisis. That's why the NPL ration was ablated by 3.06% and 2.98% in 2015 and 2016 severally. In 2017 IDLC's NPL was 2.77% pretty low than last year. within the following graph IDLC's NPL magnitude relation has shown:





# **CHAPTER: FOUR**

## **Findings, Recommendation and Conclusion**

# Findings

IDLC is well positioned to hold these SME businesses with fast and trouble at no cost funding. to raised change U.S.A. to supply the SMEs with world category service, below are a number of the initiatives to be taken in future :

- specialize in business increase beside maintain plus quality and strengthening the IDLC SME complete in SME finance.
- Strengthen human capital to extend productivity to best levels through intensive coaching and training.
- Expand the footprint by establishing new space workplace and exploring new business opportunities in markets.
- Implement on-line credit appraisal across all the realm workplace which can not solely hasten judgment creation however conjointly cut back the loan turnaround.
- Launch new product and modify the prevailing basket to align with marketplace demand.
- Implement web/ app-based consumer service tool to raised serve the shoppers likewise as produce associate degree institutional memory.
- Tie-up with native and multi-lateral agencies to figure towards the progress of marginal division with important embedded progress potential.
- Establish an objective-based performance analysis model for all SME staff like (ESAU Model).

# Recommendation

In recent years, SME is taken into account because the most significant sector of the full business setup. SME contributes nearly 30 minutes of the full GDP in East Pakistan that may be a immense contribution from one sector. It conjointly creates 30 minutes of employment chance throughout the state. In short, the importance of SME funding in our economy is vast.

As a Non-Banking financial organisation, IDLC features a vital contribution towards the expansion and development of SME sector. although the organization is with success running its operation, it's some limitations additionally. There are still some area unitas wherever enhancements are needed.

once doing the SME loan comparison I even have return up with the subsequent solutions:

- IDLC ought to organize completely different workshops, seminar and orientation program at space level so as to supply latest info regarding SME finance and their varied monetary schemes.
- they must be engaged in n"qtiperar" id="tip\_48" title="in order|so as">so as to come back up with the suitable or matching merchandise per the consumer wants.
- The part Secured Term Loan of IDLC is to be baked by 30 minutes of the loan quantity. they must think about this issue so as to reduce the chance.
- IDLC ought to style a specific loan theme for the Agro process Industries additionally which can grow their client base and additionally retain their position within the competitive market.
- They ought to develop new credit product so as to handle the surprising and short needs of the SME customers during a trouble free method
- The appraisal structure ought to be a lot of practical and clear. they must develop credit classification system so as to spotlight the strength and weakness of purchasers. As a result, it'll be easier for them to create any loaning call.
- They ought to maximize electronic payment and settlement systems. So, that they will give a price effective retail payment service for his or her SME customers.

By taking all the higher than mentioned initiatives, IDLC are going to be able to give a a lot of custom and effective finance solutions to their valuable purchasers.

## Conclusion

Credit danger in its simple description submits in to the task of losses through neglect economic assets. If this risk isn't managed and mitigated effectively and with efficiency, the elemental business of disposal will brought hassle to entire money business establish a good credit risk administration framework ought to be a prime priority for each association during this regard. however if the established framework isn't possible enough for generating enough come back for the stakeholders, we have a tendency to cannot hope that it'll be property within the long-standing time. So, the administration of the economic establishments have to be compelled to verify a good, at constant time, profitable and property credit risk administration rule for the sleek running of its operation within the disposal business.

Little and Average Enterprises (SMEs) play a really vital role within the money increase and development of the country, particularly in one like ours. Bangladesh has just about six (6) million small, little, and average enterprise with but a hundred staff, out of that around 27,000 are SMEs. Micro, little, and medium enterprises provide over 75th of the profits of the households in Bangladesh. The division contributes close to 25th of the gross domestic product, 400th of gross producing output, 80-85% of commercial jobs and constitutes around 25th of the overall proletariat creating this sector a pretty one for disposal by money establishments.

Despite such high potential, this sector has been for the most part neglected by the economic division during this state till recently. Inadequate plus base of the homeowners, inadequate technical ability of the entrepreneurs, absence of formal method of accounting in maintaining financials, high seasonality within the business, inadequate security coverage for credit facility, high competition within the business have forced the money establishments in exploring this important phase of the economy.

Very recently, banks and NBFIs began to notice of the potential of this division. In terms of giant trade chance, high border, and inspiring recovery fee, SME division is understand proving to be a really promising division of prudent investment for money establishments. once squeeze within the financial gain margin of the normal banking business is creating telling impact on the record of economic organization, the undiscovered potential of SME social science might breathe clean air within the economic division.



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## Abbreviation

A/C	=	Account
B/L	=	Bill of Lading
BTB	=	Back to Back
BDS	=	Business Development Services
CA	=	Chartered Accountant
CC	=	Cash Credit
CD	=	Current Deposit
CIB	=	Credit Information Bureau
CIDA	=	Canadian International Development Agency
CLR	=	Classified Loan Review Report
CRG	=	Credit Risk Grading
CRISL	=	Credit Rating and Information Services Ltd.
DSE	=	Dhaka Stock Exchange
EPZ	=	Export processing zones
ESAU	=	Excellent Satisfactory Average Unsatisfactory.
FIs	=	Financial Institutions
FSV	=	Force Sale Value
GDP	=	Gross Domestic Product
HOBU	=	Head of Business Units
HOCR	=	Head of Credit Risk
ICAB	=	Institute of Chartered Accountants of Bangladesh
IDLC	=	Industrial Development and Leasing Company
KYC	=	Know Your Customer

LEIC	=	Local Enterprise Investment Center
MELA	=	Micro- Enterprises
NBFI	=	Non-Bank Financial Institution
ROA	=	Return on Asset
ROE	=	Return on Equity
RM	=	Account officers/Relationship Managers
SEC	=	Security Exchange Commission
SME	=	Small & Medium Enterprise
SE	=	Small Enterprise
TIN	=	Tax Identity Number
VAT	=	Value Added Tax.