

Development Finance (Optional)

I. Subject Overview and Objective

Development finance includes lending products specially designed for income-generating projects where such projects will be funded based on future feasibility and income flows of the project which is different from the conventional lending based on assets collaterals and past business relationships of borrowers with the lending institutions. In addition, a host of non-financial support services such as training, management and financial advice, follow up and business restructuring also has to be provided or arranged by the lending institutions. Therefore, development finance is a package of credit plus services provided by lending institutions to business ventures. The ventures will range from micro-businesses to small and medium scale enterprises (SMEs). Development finance is especially important in developing economies to contribute directly to production, income and employment generation and there is enormous potential for banks and financial institutions to expand their retail client base through development finance products in emerging economies. Therefore, specialized lending institutions and delivery systems are supported by the government through economic and regulatory policies. This subject is designed to provide knowledge on development finance products and delivery models to help banking and financial professionals to effectively undertake the development finance function for the economy as a dedicated business line.

II. Recommended Subject Coverage

- (a) Project lending: Rationale for project finance, collateral- based and project based financing
- (b) Project appraisal for lending decision against commercial lending decisions: Market and demand analysis (situational analysis, demand forecasting), technical analysis (manufacturing process and technology –product mix, plant capacity, location and site, project charts), financial analysis (estimation of cost of project and means of financing, estimates of sales and production, cost of production, working capital requirement and its financing, breakeven point, projected cash flow statement, projected balance sheet), appraisal criteria (DCF and non-DCF methods), IRR, pay-back period, sensitivity analysis, financial structuring, preparation of project appraisal report.
- (c) SME financing: Definition of SMEs, role in economic development, importance of SME financing to banks and financial institutions, sources of finance (refinance, global funds, interest subsidies, credit guarantees, venture capital), supporting policies (regulatory/tax concessions, extension services, etc.) rehabilitation of sick projects.
- (d) Microfinance: The importance of microfinance for poverty alleviation, poverty line, microfinance delivery models, financial literacy and inclusion, Grameen Bank Bangladesh, concerns of unethical microfinance and practices, regulation of microfinance and challenges