



Cluster Financing Policy

The City Bank Limited

Background

Clustering financing is a recognized strategy to strengthen and consolidate CMSMEs through promoting interconnectedness, competition, and cooperation. Bangladesh Bank takes interest in the cluster based CMSME development because of the evidences that CMSMEs may enjoy competitive advantage and economies of scale by sharing and cooperating with each other.

Bangladesh Bank provided comprehensive guidelines on cluster financing, accordingly, the Cluster Financing Policy is formulated.

Scope of Policy

Bangladesh Bank issued SMESPD Circular no 5, dated August 14, 2022, where below instructions were given on cluster finance.

- i. Banks/financial institutions will formulate their own cluster financing policy. The policy has to be approved by the board of directors of the respective bank.
- ii. Approved policy to be circulated through the website of the Bank.
- iii. A copy of the policy is to be submitted to SMESPD, Bangladesh Bank.

This policy is formulated in line with Guideline for **Small and Medium Enterprise (SME) Credit Policies & Programmes**.

However, any future directives from central bank will supersede this policy.

Definition of Cluster

Fifty or more similar/homogenous/related products or services initiatives located in a specific geographic location of a maximum 5 kilometer area, will be collectively treated as cluster.

However, if any new definition is declared in National Industrial Policy, the revised definition will be circulated by Bangladesh Bank.

Cluster Finance Activities

As per the definition of the cluster already identified cluster should be considered for the cluster financing. Moreover, any list proved in the national industrial policy from time to time shall be considered.

Top Priority Clusters	
a	Agriculture/Food Processing and agri machinery manufacturer industry
b	Readymade garments industry, Knitwear, design and beauty accessories
c	ICT
d	Lather and lather item industry
e	Light Engineering
f	Jute and Jute based industry
Priority Clusters	
g	Plastic & other synthetic industry
h	Tourism Industry
i	Home Textile items
j	Renewable Energy (Solar Power)
k	Automobile manufacturing and repairing industry
l	Loom, handicraft and fine crafts
m	Electricity Savings Equipment (LED, CFL Bulb production)/Electronic equipment manufacturer/ Electronic material development industry
n	Jewelry industry
o	Toy Industry
p	Cosmetics & Toiletries
q	Agar Industry
r	Furniture industry
s	Mobile/Computer /Television Servicing

Any other cluster, which is not in the above list, identified by the bank shall be treated as other clusters.

Target for Cluster-based Financing:

- i. The Bank has to set a target of Cluster Financing to 10% of its net CMSME Portfolio as of 31 December 2022. The target is to be increased by 1% additional each year and reach up to 12% at the end of the year 2024.
- ii. Bangladesh Bank may revise/reset the target if necessary.
- iii. Bank has to disburse a minimum of 50% of its Cluster finance to above mention cluster and a maximum of 50% can be disbursed to other clusters.

Eligibility of the borrower under cluster Finance:

- ✓ The enterprise must be CMSME, engaged in manufacturing or service.
- ✓ It must be located in the specific cluster.
- ✓ If there is an association of entrepreneurs in the cluster, the entrepreneur must be a member of the association.
- ✓ A Borrower cannot be a defaulter as per the CIB report.
- ✓ If the entrepreneur obtained a minimum of one month of training on the relevant business from a government or reputed private institute, he/she will get priority for availing loan
- ✓ Women and special needs entrepreneurs under a cluster will get priority.

Loan type and size at borrower level:

- ✓ Depending on the nature and requirement both working capital and term loans can be given.
- ✓ Highest ceiling of loan limit as per CMSME master circular shall be applicable for cluster financing.

Loan/Investment Limit	Cottage Initiative	Micro Initiative		Small Initiative		Medium Initiative	
	Manufacturing Industry	Manufacturing Industry	Service Industry	Manufacturing Industry	Service Industry	Manufacturing Industry	Service Industry
Maximum Loan/Investment Limit	15 Lac	1 Crore	25 Lac	20 Crore	5 Crore	75 Crore	50 Crore

- ✓ A borrower can avail of loans from more than one Bank/FI as per their need, but the cumulative loan limit shall not cross the highest ceiling as per the CMSME Master circular.

Interest rate at borrower level:

- ✓ Interest Rates and Charges will be applicable as per the BRPD circular on the rate of interest and Schedule of Charges.
- ✓ For loans under any reference scheme, the interest rate for the relevant scheme shall be applicable.

Tenure of the loan at borrower level:

Particulars	Description
Grace Period	0 to 6 months from the date of disbursement
Facility Tenor	Maximum: 60 months

- ✓ Repayment mood can be set to monthly/quarterly /half yearly basis.
- ✓ For working capital loans relevant circular shall be applicable.

Security:

- ✓ Personal, social or group guarantees can be considered as security. In that case directives of SMESPD Circular 02/2019 clauses 7.1, 7.2, and 7.3 are to be considered.
- ✓ Credit Guarantee Scheme, declared by Bangladesh Bank from time to time can be accepted in case of unsecured or partially secured loan under cluster finance.

Loan approval process:

- ✓ CBL shall assess the loan proposal as per its own credit policy.

- ✓ After receiving the application, CBL must ensure that the enterprise is located in the specific cluster as per its own policy.

Reporting and Monitoring

- ✓ CBL has to maintain the cluster finance-related data separately in the statement of affairs at the branch and head office levels.
- ✓ CBL shall submit cluster finance-related information to SMESPD, Bangladesh Bank, quarterly, within 15 of the following months.
- ✓ CBL shall have its own work plan and monitoring program to ensure proper utilization of loans disbursed under cluster financing. CBL shall assist Bangladesh Bank to conduct audits and inspections from time to time.
- ✓ CBL may arrange region-based awareness activities considering the socio-economic development of the country.

Other Terms and Conditions:

- ✓ CBL shall follow relevant rules for provisioning and classification
- ✓ CMSME Finance-related terms and conditions shall be applicable for other loan-related issues i.e., loan application processing, distribution, and monitoring.
- ✓ CBL shall preserve relevant data and documents so that the same can be produced to Bangladesh Bank as and when required.
- ✓ Cluster Finance-related specific information shall be added in the notes section of the Balance Sheet of CBL for acknowledgment of stakeholders.
- ✓ CBL may use ICT and Mobile Financial Services /Digital Banking in appropriate cases.
- ✓ Cluster finance will get priority for financing under different low-cost refinance schemes initiated by Bangladesh bank from time to time for overall socio-economic development.
- ✓ All other instructions of SMESPD circular no. 2/2019 shall be applicable for cluster finance.

Role & Responsibility:

The cluster financing activity will be led by Small & Micro Finance Division, which will include:

- ✓ Communication, coordination and arrangement of Cluster Financing Scheme from partners.
- ✓ Identification and selection of Cluster
- ✓ Assist other business channel for business acquisition.

Business Wings (Corporate, Commercial, SME Medium & Small & Micro Finance) will lead the activity at field level which includes but not limited to:

- ✓ Selection of borrower and proposal preparation, disbursement after getting approval in due process of bank
- ✓ Monitoring and recovery of the loan.