

CMSME Cluster Financing Policy



Prime Finance & Investment Limited

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A. Background:

CMSME is the driving force of any economy, which especially a country like Bangladesh has more impact. So to promote the sector, the government and central bank take different initiatives to reach the CMSME and develop their capacity and increase access to finance. One such aspect is the SME Cluster Financing approach.

Recently Bangladesh Bank provided specific guidelines on cluster financing accordingly, the Cluster Financing Policy is formulated in all NBFI.

B. Scope of cluster Finance policy:

Bangladesh Bank issued SMESPD Circular no 5, dated August 14, 2022, where precise guidance and instructions were given on cluster finance for all scheduled banks and NBFI.

According to the policy:

- 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/ NBFI.
- Approved policy to be circulated through the website of the Bank/ NBFI.
- A copy of the policy is to be submitted to SMESPD, Bangladesh Bank.

Earlier Bangladesh Bank instructed the banks and financial institutions to develop its own Cluster Financing policy in Policy Guideline for Cottage, Micro, Small and Medium Enterprise (CMSME) Credit Policies & Programs. Accordingly this Cluster Financing Policy of PFIL is formulating. Any future directives from central bank will be effective with immediate effect over the PFIL Policy.

C. 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 a Cluster.

In that case business strengths, weaknesses, opportunities, and threats of the business initiatives will be the same.

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

D. Cluster Finance Activities:

Identification of Cluster:

As per the definition of the cluster already identified cluster should be considered for cluster financing. As well as any list provided in the National Industrial Policy from time to time shall be considered. ..

Following cluster to be considered as a top priority and high priority:

Top Priority Clusters

<i>1</i>	<i>Agriculture/Food Processing and agri machinery manufacturer industry</i>
<i>2</i>	<i>Readymade garments industry, Knitwear, design and beauty accessories</i>
<i>3</i>	<i>ICT</i>
<i>4</i>	<i>Lather and lather item industry</i>
<i>5</i>	<i>Light Engineering</i>
<i>6</i>	<i>Jute and Jute based industry</i>

Priority Clusters

1	Plastic & other synthetic industry
2	Tourism Industry
3	Home Textile items
4	Renewable Energy (Solar Power)
5	Automobile manufacturing and repairing industry
6	Loom, handicraft and fine crafts
7	Electricity Savings Equipment (LED, CFL Bulb production)/Electronic equipment manufacturer/ Electronic material development industry
8	Jewelry industry
9	Toy Industry
10	Cosmetics & Toiletries
11	Agar Industry
12	Furniture industry
13	Mobile/Computer /Television Servicing

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

Cluster-based Financing Target:

- The Company shall 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.
- Bangladesh Bank may revise/reset the target if necessary.
- Bank/ NBFIs 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.
- A borrower can avail of loans from more than one Bank/NBFI 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 DFMI 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:

- For a Term loan maximum tenor will be 5 years. A grace period not over 6 months can be given based on NBFI client relationship. 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:

- After receiving the application, PFIL must ensure that the enterprise is located in the specific cluster as per its own policy.
- PFIL shall assess the loan proposal as per its own credit policy.

Reporting and Monitoring

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

Other Terms and Conditions:

- PFIL 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.
- PFIL shall preserve relevant data and documents so that the same data 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 PFIL for acknowledgment of stakeholders.
- PFIL 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 SME SPD circular 2/2019 shall be applicable for cluster finance.

E. Role & Responsibility:

The cluster financing activity will be led by SME Business Unit which will include:

- Identification and selection of Cluster
- Assist Branch and other business channel for business acquisition.

Branch 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.
- Monitor and recovery of the loan.

Annexure:

SMESPD Circular No. 05: Cluster financing in CMSME sector dated August 14, 2022