

# **CMSME Cluster Financing Policy**

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## 1. Background

Strengthening CMSME sector by enhancing efficiency, improving business environment, providing easy access to finance, ensuring better marketing facilities, upgrading technology and innovative capabilities and creating employment opportunities is the mission for creating vibrant SME sector in Bangladesh. To promote the sector, the government and central bank take different initiatives to support the CMSME and develop their capacity and increase access to finance. One such initiative is the SME Cluster Financing approach.

Clustering is a reconciled strategy to strengthen and consolidate CMSMEs through promoting interconnectedness, competition and cooperation. Cluster based SME development is the new idea because of the evidences that CMSMEs may enjoy competitive advantage and economies of scale by sharing and cooperating. Cluster-based financing is popular across the world and the proper support to the clusters would enhance capacity of micro and small firms to compete in domestic and international markets. This will bring about significant benefit to the economy.

A cluster-based approach to financing lowers the transaction costs of the banks. For instance, the credit assessment is easier as the cost structure and industry prospects of units in a cluster are similar and the information provided by one unit can be used to verify the information supplied by other units. It enables the bank to gain a comprehensive understanding of the sector as banks also have other actors, such as raw material suppliers or buyers, as an account holder

Meanwhile, SME & Special Program Department of Bangladesh Bank issued new guidelines on cluster financing. Based on the guidelines given by Bangladesh Bank, NCC Bank Limited has formulated the CMSME Cluster Financing Policy.

## 2. Scope of Cluster Financing Policy

According to new BB guidelines vide reference SMESPD circular No. 5 dated August 14, 2022 the banks and non-bank financial institutions have been advised to

- Introduce a cluster-based financing policy for cottage, micro, small and medium enterprises [CMSME] of the country & the policy has to be approved by the Board of Directors
- Approved Policy to be circulated through the website of the Bank
- A copy of the policy is to be submitted to SMESPD, Bangladesh Bank

## 3. Definition of Cluster

According to SMESPD circular No. 5 dated August 14, 2022 cluster defined as

- An area would be considered as a cluster if there are 50 or more firms producing homogenous or related products and services in a 5-kilometre radius.
- Business strength, weakness, opportunity and threat of cluster members shall be same.

In future if the definition changed in the national industrial policy, then the definition of cluster shall be changed accordingly. Ad if any changes addressed in future in the listing of cluster identifications in the national industrial policy, then that will be changed accordingly also.

#### 4. Importance of CMSME Cluster financing in Bangladesh

- The firms in the area can develop and cater to the export market
- Achieving economies of scale in production, advertising, and sales.
- Production cost will be reduced, import dependency to be reduced, personal net worth will be increased, employment opportunities to be created, regional disparity to be reduced, standard lifestyle to be improved.
- The cluster-based approach helps in better interface with well-defined and recognized groups as the lending institutions have access to adequate and appropriate information required for risk assessment and monitoring

#### Cluster Financing Status in Bangladesh

There is no recent study on the status of cluster financing. According to cluster mapping study conducted by SME foundation which published in 2013 showed that there are 177 SME clusters in Bangladesh, of which 129 fall under Booster sectors and 48 under Non-booster sectors in 51 districts of the country. There are 69,902 enterprises operating in these 177 clusters employing a workforce of 1,937,809, of which 74% are male and the rest 26% are female. Total approximate annual turnover in these clusters has been estimated at 295,150.66 million. Average number of workforces per cluster is 394, whereas per enterprise workforce engaged is 28 and male female ratio of the workforce in all these clusters is 74:26.

#### 5. Identification of Cluster

As per SMESPD Circular No. 05 dated August 14, 2022, clusters are categorized as:

##### High Priority Cluster:

1. Agriculture/food processing and manufacturing industry of agricultural machinery
2. Readymade garments industry, Netware, design and decoration
3. ICT
4. leather and leather goods producers
5. light engineering and
6. Jute and jute goods industry

##### Priority clusters:

1. Plastic and other synthetic industry,
2. Tourism industry,
3. Home textile products,
4. Renewable energy such as solar power system,
5. Automobiles (manufacturing and repair/maintenance) industry,
6. Handloom, handicraft and cottage industry,
7. Energy saving products or equipment (LED, CFL bulb manufacturing)/electronic machinery manufacturing industry/ electronic material development industry,
8. Jewellery industry,
9. Toy Industry,
10. Cosmetics and toiletries industry,
11. Agar Industry,
12. Furniture Industry,
13. Mobile/computer/television servicing

#### Other Cluster:

Any other cluster identified in addition to the above-mentioned clusters identified by Bangladesh Bank mentioned under SME Financing Policy bank shall be treated as other cluster. In addition, following cluster based financing will also be under consideration as other cluster

1. Sports Ware Cluster
2. Metallic Ornaments Cluster
3. Jamdani Cluster
4. Cock Sheet Cluster
5. Hosiery Cluster

At the time of identifying the clusters for financing, we may consider the clusters mentioned in the Small and Medium Enterprise (SME) Credit Policies & Programmes published by Bangladesh Bank in line with SMESPD Circular No. 05 dated August 14, 2022. For other cases initially Head Office may recommend for some proposed clusters in the adjacent area of our Branch operations and advice respective branches for feasibility studies.

Branch will identify the cluster complying the requirements mentioned in Bangladesh Bank circular and inform Head Office with detailed information as follows:

- Type of business (manufacturing or service),
- Number of firms involved in producing homogenous or related products and services within a 5-kilometre radius,
- Business strength, weakness, opportunity and threat of cluster members
- Presence of valid association, cluster wise and nation wise.
- Cluster wise association is agreed to provide guarantee for member's loan liability.
- Product type,
- Present & future business prospect of the products and services,
- Subject product and service life stage
- Average cash flow of the cluster cumulatively,
- Randomly 10 firm's income statement,
- Market of the products & services,
- location of the business operation,
- Communication between production area and projected market, Present market analysis of the same products & services,
- Other banks and NBFIs' foot print in the same cluster.

After analyzing the Branch provided and other available information Head Office Credit committee will decide whether we consider the cluster for financing or not.

#### 6. Cluster based CMSME Loan / Investment Target and Allocation

- The Bank has to achieve a target of Cluster Financing at 10% of its net CMSME Portfolio as of 31 December 2022. The target is to be increased by at least 1% additional each year and reach at least 12% gradually at the end of the year 2024. The given target will be revised as per BB directives.

- As on 31.12.2022 Cluster finance outstanding of NCCBL stands at Tk. 193.63 Crore representing 4.56% of net CMSME portfolio.
- 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.

## 7. Cluster based CMSME Financing Guidelines

In the light of the Cluster based CMSME Financing Guidelines of Bangladesh Bank, NCC Bank Limited has developed bank's own CMSME Cluster Financing Policy for implementation. Branch will lead the activity at origination 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.

The following features to be followed for Cluster based CMSME Financing:

Particulars	Description													
Name of Scheme	Cluster based CMSME Financing													
Target Customer	Any potential CMSME enterprise engaged in manufacturing and Service sector under an eligible cluster is eligible for availing facility under Cluster Based CMSME Financing.													
Customer's eligibility to avail the loan / Investment	<ul style="list-style-type: none"> <li>➤ The Enterprise / Business must be under CMSME as per CMSME definition given by Bangladesh Bank.</li> <li>➤ It must be located in the specific cluster.</li> <li>➤ Enterprise must be engaged in manufacturing or service.</li> <li>➤ If any association is available under the Cluster, the Entrepreneur needs to be a member of the Association.</li> <li>➤ The Enterprise / Customer is not a defaulter as per CIB Report.</li> <li>➤ Priority will be given to the Enterprise / Customer to avail loan who has obtained training on the specific business for 1 month (minimum) from any Government Organization or reputed Private organization.</li> <li>➤ Priority will be given to the Women Entrepreneur and entrepreneurs with special needs</li> </ul>													
Nature of Financing	<ul style="list-style-type: none"> <li>• All existing credit facilities [funded and no funded] offered by NCC Bank Ltd. [ i.e. Continues loan, Term loan, Demand Loan, LC, BG etc.]</li> </ul>													
Product Type	<ul style="list-style-type: none"> <li>• All existing credit facilities [funded and no funded] offered by NCC Bank Ltd.</li> </ul>													
Purpose	<ul style="list-style-type: none"> <li>• As per existing policy of the bank</li> </ul>													
Minimum & Maximum Loan Ceiling at customer level	<p>Minimum Loan ceiling: Tk. 3.00 lac and the highest ceiling of loan limit as per clause no. 2.6 of SMESPD circular # 02/2019, Loan Ceiling will be applicable.</p> <table border="1"> <thead> <tr> <th>Loan / Investment Ceiling</th> <th>Cottage Enterprise</th> <th>Micro Enterprise</th> <th>Small Enterprise</th> <th>Medium Enterprise</th> </tr> </thead> <tbody> <tr> <td>Maximum Loan Ceiling</td> <td>Manufacturing Tk. 15 lac</td> <td>Manufacturing Tk. 1 crore</td> <td>Service Tk. 25 lac</td> <td>Manufacturing Tk. 20 crore</td> <td>Service Tk. 5 crore</td> <td>Manufacturing Tk. 75 crore</td> <td>Service Tk. 50 crore</td> </tr> </tbody> </table> <p><b>Note:</b> A customer may avail loan from different banks, but the aggregate exposure shall not be exceeded against the above-mentioned limit at any time. Bank will determine it through checking CIB report.</p>	Loan / Investment Ceiling	Cottage Enterprise	Micro Enterprise	Small Enterprise	Medium Enterprise	Maximum Loan Ceiling	Manufacturing Tk. 15 lac	Manufacturing Tk. 1 crore	Service Tk. 25 lac	Manufacturing Tk. 20 crore	Service Tk. 5 crore	Manufacturing Tk. 75 crore	Service Tk. 50 crore
Loan / Investment Ceiling	Cottage Enterprise	Micro Enterprise	Small Enterprise	Medium Enterprise										
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Particulars	Description
Interest rate / profit rate / Rate of return at customer level	<ul style="list-style-type: none"> <li>Interest rate to be set as per schedule of charges / as per latest ALCO decision.</li> <li>However, when the loan / investment will be disbursed under refinance scheme of Bangladesh Bank / SME Foundation, Interest rate / Profit Rate / rate of return to be set as per guideline of the refinance scheme.</li> <li>All other fees and charges shall be applicable as per latest schedule of charges.</li> </ul>
Tenor of the Loan at customer level	<p>Term Loan: Maximum 5 years (Including Maximum 6 months Grace Period)  Installment frequency: monthly/quarterly/half-yearly basis for term loan.  Continues Loan: not more than 1 (one) year revolving/Non revolving  Demand Loan: as per existing credit policy</p>
Security	<ul style="list-style-type: none"> <li>Personal Guarantee of the proprietor / owner, social Guarantee OR Group Guarantee to be obtained as per SMESPD circular # 02 dated September 5, 2019.</li> <li>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.</li> <li>Collateral and other securities shall be obtained in line with the existing policies (as applicable).</li> </ul>
Approval Procedure of Loan	<ul style="list-style-type: none"> <li>After receiving the application, the branch must ensure that the enterprise is located in the specific cluster as per its own policy.</li> <li>Asses &amp; approved the loan proposal as per prevailing credit policy.</li> </ul>
Delegation for approval	<p>Approval delegation will be exercised as per prevailing Delegation of Business Power [DBP]  <b>Exception:</b> MD &amp; CEO is empowered to approve with exception other than loan limit and security proposition as per DBP.</p>
Reporting & Monitoring	<ol style="list-style-type: none"> <li>IT will develop flagging specific cluster in existing loan product</li> <li>CMSME Cluster Financing to be shown separately in the statement of affairs of Head Office and Branch level.</li> <li>Quarterly Statement on CMSME Cluster Financing to be submitted to Bangladesh Bank within 15 days of the following month of the quarter end.</li> <li>Specific Action Plan and monitoring system to be undertaken by CMSME Banking Division and Branches for ensuring the utilization of loan / investment.</li> <li>Bangladesh Bank has the right to inspect physically to check the data to ascertain the end use / utilization of the Cluster based CMSME loan / investment.</li> <li>Post disbursements follow up and monitoring by the Branch is an essential condition for these types of loans. Monthly installments or quarterly interest must be realized from the clients by the Branch in due time. Credit Monitoring Division must monitor the health of the portfolio with different branches on regular basis.</li> <li>Banks shall have to take necessary initiatives to create awareness and conduct Region wise Awareness Programs on Cluster Development for overall Socio-Economic development of Bangladesh.</li> </ol>

Particulars	Description
Other Conditions	<ol style="list-style-type: none"> <li>1. In case of failure to repay the CMSME Cluster Loan, the bank will classify the loan and maintain required provision as per existing Bangladesh Bank's policy.</li> <li>2. Bank will follow the existing CMSME Policy / CRM Policy/ ESRM Policy/ Relevant Policy for selection of borrower / customer, application receiving, origination of loan/ investment proposal, processing of loan / investment, approval procedure of loan / investment, disbursement, utilization of loan / investment, supervision, monitoring and collection/ recovery, legal matters.</li> <li>3. Required papers / information to be submitted to Bangladesh Bank as and when required.</li> <li>4. Information on CMSME Cluster Financing to be shown separately in the balance sheet as note for the information of stakeholders.</li> <li>5. Bank may use Information Technology and Mobile Financial services / Digital Banking for disbursement and recovery / collection of CMSME Cluster Loan / Investment.</li> <li>6. Emphasis shall be given on disbursement of the CMSME Cluster Loan / Investment under different refinance scheme of Bangladesh Bank at lower interest / profit rate / rate of return for socio-economic development of Bangladesh.</li> <li>7. Bank shall follow the SMESPD Circular # 05 dated August 14, 2022, SMESPD circular # 02 dated September 5, 2019 and relevant circulars issued or to be issued from time to time.</li> <li>8. Any regulation directed by Bangladesh Bank will automatically be applied for execution.</li> </ol>
Deviation Authority	<p>Any feature of clause no. 7 &amp; other cluster selecting process in Cluster based CMSME Financing Guidelines may be modified /amended by MD &amp; CEO.</p> <p>If any changes come to individual product policy guideline that shall be considered cluster financing also.</p> <p>Managing Director &amp; CEO is empowered to approve any exception/deviation, considering the business prospect of the Bank, if permitted by the guidelines of Bangladesh Bank.</p>

## 8. Documents Checklist

### Required Documents for Loan Applications

Mandatory required documents
<ul style="list-style-type: none"> <li>• Duly filled and signed application for loan [existing loan application shall be applicable]</li> <li>• Copy of updated Trade License</li> <li>• Branch Proposal for applied loan with Branch recommendation</li> <li>• BOCC as per Head Office Instruction Circular</li> <li>• Income expenditure statement of the subject business concern</li> <li>• Net worth statement of the subject business concern</li> <li>• Personal Net worth statement of the Business Owner(s)'</li> <li>• Profit and Loss Statement and Balance sheet of the business concern with ICRRS (where applicable)</li> <li>• Physical Visit report by Branch of business premises, factory.</li> <li>• Business premises/sales outlet and warehouse and ownership status and photographs.</li> <li>• Branch Position.</li> <li>• Up-to-date CIB of the Business Owner(s) [not later than 60 days]</li> </ul>



- Three copies of Passport Size Photographs of Business Owner(s) and their spouse(s).
- Copy of National ID Card of Business Owner(s) and spouse(s).
- Copy of utility bill such as electricity, gas, land phone, water supply of Business Owner(s) present residence.
- Copy of Up-to-date Tax Clearance Certificate of concerned business concern. Proof of submission of borrower's income tax return of last income year, if required.
- Sanction advice(s) of all existing loans in the names of business concern and the applicant with present liability position.
- Up to date Loan account statement since inception.
- Bank Statement(s) for last 12 months.
- If required, registered partnership deed and the minutes.
- For Private Limited Company, Board resolution/minutes for availing loan facility and documentations and other required documents.
- If required, permission from the concerned ministry or authority for business operation.
- Up to date and valid copy of membership in related association. NOC for availing loan from the association, if possible.
- Copy of the professional certificate or certificate of affiliation to the relevant professional institute or organization/authority or membership in association, if required.

**If Business Owner offers tagging with the existing R.M. as collateral security**

- Copy of Mortgage Deed.
- Lawyer's satisfaction certificate regarding the documentation for the existing facility.
- Copy of Legal Opinion from the panel Lawyer of the Bank.
- Copy of Third-Party Valuation Report of the proposed property from the enlisted surveyor of our Bank.

**If Business Owner offers fresh mortgage as collateral security**

- Title deed(s), Bia deeds along with all required property documents proving the title of the proposed property
- BLA opinion
- Third-Party Valuation Report of the proposed property from the enlisted surveyor of our Bank
- Branch visit report (with photographs) along with Branch genuineness report, as per HO instruction circulars.

**Required documents of the proposed guarantors**

- 2 copies of Passport Size Photographs of the proposed guarantors.
- Copy of National ID Card of the proposed guarantors.
- If the proposed guarantor is a businessman, then up-to-date trade license.
- Personal net worth statements of the guarantor.
- Up-to-date CIB of the proposed guarantor(s).

**Special requirements:**

- The Head Office may ask for any other document which is required for proper credit analysis.
- The Branch must ensure authenticity of the furnished information in the loan proposal.
- Branch will have to source eligible customers within the selected cluster.
- Requirement of documents may vary in case of different proposals depending on the type of the legal constitutions of the applicant firm and the type of the loan applied for.
- The Branches must select borrowers with extreme caution and care. Strong post disbursement monitoring and follow up are also needed by the Branch to ensure ultimate recovery and realization of Bank's investment.
- If the facility is applied under a specific package for refinance and special rate of interest then, subsequent required documentation must be done according to that specific package related circulars (Bangladesh Bank and our Bank).

