

Approval Note Sheet

Document Name	Cluster Financing Policy
Document Owner	SME & Retail Banking
Developed By	Process Management Office and SME & Retail Banking



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Disclaimer:

The Policy has been developed as per following relevant circulars along with meeting, in person discussion and mail communication:

Issuing Authority	Subject	Date	Reference No.
Bangladesh Bank	Cluster financing in CMSME sector	14Aug22	SMESPD Circular No. 05
	Master Circular on CMSME Financing.	05Sep19	SMESPD Circular No. 02
	Master Circular on Schedule of Charges	10Jun21	BRPD Circular No. 11

Roles of Associated Departments

Associated Departments must go through this policy to get informed about their actions as well as necessary steps needed to be taken accordingly. However, all officials of IFIC Bank are suggested to go through the policy to enrich their knowledge.

This policy has defined some action items for following associated departments for the implementation of this policy:

1. SME & Retail Products
2. Credit Risk Management
3. Finance & Accounts Division
4. Branch Business
5. Refinance Claim Processing & Reporting

Cluster Financing Policy

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1. Introduction:

For economic growth of any nation, the importance of CMSME sector is unbounded. Clustering financing is an overseas recognized strategy and Bangladesh Bank takes initiatives in the cluster wise CMSME development projects, based on a hope to build a positive impact on economic growth. This will help to create a positive impact on economic growth by creating new employment opportunities which help directly to grow GDP of the country. By analyzing recent economic conditions for ensuring obtainable loan/investment, Bangladesh Bank has developed specific guidelines (SMESPD circular No. 05, dated August 14, 2022) on Clustering financing under CMSME.

IFIC also has developed its own policy as per Bangladesh Bank guidelines regarding cluster-based financing. This new Policy will support faster processing of proposals with an integration of all necessary information and other due diligence. The policy outlines the borrower eligibility criteria and detailed features of facility like documents required to process the facility, conditions related to the facility, security support, monitoring tools, regulatory issues etc.

2. Definition of Cluster:

- The summation of **50 (Fifty)** or more similar/ homogenous types of productions/ service providers/enterprises which are located within a specific geographical boundary which is not **more than the radius of 05 (Five) Kilometers** is considered as cluster.
- The strength, weakness, opportunity & Threat (SWOT) of enterprises of a cluster must be the same.
- Necessary directives will be published as usual in case of rephrasing the definition of cluster in National Investment Policy.

3. Cluster Identification:

- a. Specific clusters marked in the definition of section 01 (SMESPD circular No. 05, dated August 14, 2022) must be considered in cluster financing and it would be adjusted further according to the list published in "The National Industrial Policy".
- b. Based on the products and services which are covered with clustered based organizations, the clusters can be categorized under highly Preferred and Preferred as per the following table:

Highly Preferred Clusters	
1.	Agriculture/Food Processing and Agriculture Equipment Manufacturing Industry
2.	Ready Made Garments Industry, Knitwear, Design & Decoration
3.	ICT
4.	Leather & Leather Goods Industry
5.	Light Engineering
6.	Jute & Jute Industry

Preferred Clusters	
1.	Plastic & Other Synthetics Industry
2.	Tourism Industry
3.	Home Textile Goods
4.	Renewable Energy (Solar Power)
5.	Automobile Manufacturing & Repairing Industry
6.	Yarn/Fabrics & Handicrafts Manufacturer
7.	Electricity Saving Equipment (LED, CFL Bulb Manufacturing)/Electronic Equipment Manufacturing industry/ Electronic Material Development Industry
8.	Jewelry Industry
9.	Toy manufacturing Industry
10.	Chemicals & Toiletries Industry
11.	Agar-Attar Industry
12.	Furniture Industry
13.	Mobile/Computer/Television Servicing

*Any cluster identified out of this list will be considered as “Other Cluster”.

4. Cluster Based financing Target:

The target for cluster financing will be determined time to time by Bangladesh bank.

5. Scope of the policy:

- Bangladesh Bank has instructed to prepare a Cluster Financing Policy which must be approved by the Board of Directors (BOD) of the bank as per SMESPD circular No. 05, dated August 14, 2022.
- The approved policy will have to be published in the IFIC Bank’s official website and a copy of the approved policy will have to send to SMESPD, Bangladesh Bank.

6. Cluster Financing Criteria:

This is a short and long-term financing facilities for Cottage, Micro, Small and medium size cluster entrepreneurs (as defined in Bangladesh Bank SMESPD Circular no: 05; Dated: 14th August 2022) involved in manufacturing/service-oriented business.

Particulars	Descriptions
Purpose of Loan	Business Expansion and working capital

Eligibility of Customer	<ul style="list-style-type: none"> Organization/Institute/Individual must be from CMSME segment. Organization/Institute/Individual must be a manufacturer or service concern venture. Ensure the Enterprise/Individual is under a specific cluster. The owner/proprietor/Individual must require a Membership certificate from cluster association (if there is any association of the cluster in that area). Required Clean CIB report. owners/proprietors/Individual who are specially trained for minimum one month in respective business concepts from any Government or renowned private organizations shall get preference for availing loan/investment facilities. Women Entrepreneur and Entrepreneur with Special Need shall get preference for availing loan/investment facilities. 							
Customer Segment	Financing can be done both individually and by Group.							
Loan Type	<ul style="list-style-type: none"> Term loan Working capital 							
Loan Limit	Loan/Investment Limit	Cottage Initiative	Micro Initiative		Small Initiative		Medium Initiative	
		Mfg. Industry	Mfg. Industry	Service Industry	Mfg. Industry	Service Industry	Mfg. Industry	Service Industry
	Maxi Loan/Investment Limit	15 Lac	1 Cr.	25 Lac	20 Cr.	5 Cr.	75 Cr.	50 Cr.
	<ul style="list-style-type: none"> The highest ceiling of loan limit as per CMSME master circular will be applicable for cluster financing. Borrower can avail loans/investment facilities as per their need from several Banks/FI, but the cumulative loan limit shall not cross the highest ceiling as per the CMSME Master circular. 							
Loan Tenor	<p>For term loan:</p> <ul style="list-style-type: none"> Maximum 05 years including maximum 6-months grace period. <p>For Working Capital:</p> <ul style="list-style-type: none"> The Tenor will be as per respective PPG and Bangladesh Bank guidelines. 							
Repayment Method	<ul style="list-style-type: none"> Loan installment can be determined by monthly/quarterly/yearly. 							

Interest Rate	<ul style="list-style-type: none"> ▪ As per the bank's policy and schedule of charges. (May change as per ALCO decision). ▪ But if loans are under any of Bangladesh Bank's refinance schemes, then interest rate will be as per determined rate for that scheme.
Security & Guarantee	<ul style="list-style-type: none"> ▪ As per respective loan products' PPG. ▪ Collateral arrangement will be as per IFIC CRM Policy-2017 and Parameters of IFIC CMSME Loan Products in addition to Bangladesh Bank prudential guidelines for CMSME sectors. ▪ Personal Guarantee, Society/Group Guarantee will be accepted as collateral as per SMESPD Circular No. 02 (Section 7.1, 7.2 & 7.3), Dated September 05 ,2019. ▪ Loans/investment facilities can be availed under Credit Guarantee Scheme of Bangladesh Bank.

7. Approval & Disbursement:

1. To avail the loan facilities, eligible entrepreneurs will first apply for the loan to IFIC Bank PLC. After receiving loan application IFIC bank will take initiatives to ensure their eligibility under determined clusters by analyzing the bank's own policy and take necessary steps for further processing.
2. The financing facility will be approved according to the IFIC's own credit policy.
3. After analyzing the initiative IFIC will follow the existing CMSME guideline for disbursement of the loan/investment, proper utilization, monitoring, & collection etc.

8. Fees and Charges:

Fees and Charges will be applicable as per IFIC bank's schedule of charges complying with Bangladesh Bank guideline. As per BRPD Circular No:11, dated June 10, 2021, no early settlement fee will be applicable for small cottages and micro industry.

9. Reporting and Monitoring:

1. Bank will present the cluster financing information separately in financial statements including Statement of Affairs both at Head Office and Branch level.
2. Bank will report the status of loan disbursed under cluster financing to SMESPD, Bangladesh Bank within the 15th day of following quarter.
3. To ensure fund utilization under cluster financing, IFIC bank will develop certain working plans and monitoring systems. Bangladesh Bank will ensure fund utilization of cluster financing through direct inspection occasionally and by analyzing given information.
4. By considering the importance of cluster financing (Loans/Investments), bank can arrange several awareness building programs in different regions for developing clusters.

10. Other conditions

1. In case of failure of recovery from customer, bank will keep provision and classify the loan as per existing policy of Bangladesh Bank.
2. Other issues with conducting described conditions, such as, receiving application and processing time, disbursement of loan/investment, fund utilization, monitoring and processing recovery etc. will be governed by existing guidelines of Bangladesh Bank in case of loan disbursement in customer premises.
3. Banks must provide the relevant documents and information of cluster financing to Bangladesh Bank as per their demand.
4. Bank will separately display specific information regarding cluster financing in the 'Note' section of Balance Sheet for the information of stakeholders.
5. Bank would use the Information Technology and Mobile Financial Service (MFS) / Digital Banking for conducting cluster-based loan/investment disbursement and recovery activities.
6. 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.
7. Furthermore, the other instructions of SMESPD Circular No. 02/2019 shall also be applicable.

**** IFIC bank will update this policy as per Bangladesh Bank's further instructions or modifications.**