



Cluster Financing Policy

**AB Bank Limited
Business Division
Corporate Head Office, Dhaka**

BACKGROUND:

Bangladesh is rightly called as a country of SMEs. The development potential of SME industries in Bangladesh is boundless. To promote the sector, the government and the central bank have been taking lot of initiatives to reach the CMSME and develop their capacity and increase their access to finance. One such aspect is the SME Cluster Financing approach.

Bangladesh Bank (BB) through SMESPD Circular no. 5 dated August 14, 2022 has given precise guideline and instructions on cluster financing based on which this Cluster Financing Policy has been formulated.

As per BB guideline all scheduled banks are required to formulate their own Cluster Financing Policy approved by the respective Board of Directors. The approved copy of the policy is then to be circulated through the Bank's website. A copy of the policy is also to be submitted to SMESPD, Bangladesh Bank.

DISTRIBUTION OF THE POLICY

The 'Cluster Financing Policy' shall be a part of ABBL's CMSME Lending Policy and will be governed within overall stipulations of the same. The Cluster Financing Policy document is to be made available among the Bank Officials in the Bank's website and any other appropriate manner and will also be available at each Branch of AB Bank Limited as ready reference for the Relationship Managers and other relevant branch officials for facilitating Cluster Financing.

CRITERIA FOR CLUSTER FINANCING

Based on BB's Guidelines, fifty or more similar /homogenous/related products or services initiatives located in a specific geographic location spanning maximum 5 Kilometer area of a bank branch, will be collectively treated as a Cluster. In such cases 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.

CLUSTER FINANCING ACTIVITIES

Identification of Cluster:

As per the definition of clusters, already identified clusters are to be considered for cluster financing. Plus, any list provided in the National Industrial Policy from time to time shall be considered.



Following clusters are to be considered as a top priority and priority cluster:

Top Priority Clusters

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

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 shall be treated as Other cluster.

CLUSTER BASED FINANCING TARGET

- The Bank is required to set a target for Cluster Financing up to 10% of its net CMSME Portfolio as of 31 December 2022. This target is to increase by an additional 1% each year and reach up to 12% at the end of the year 2024.
- Bangladesh Bank may revise the target from time to time.



- Bank has to disburse a minimum of 50% of its Cluster Finance to the above mentioned clusters leaving the rest to be disbursed to other clusters which is not in the above list shall be treated as Other cluster.

ELIGIBILITY TO OBTAIN LOAN AT CUSTOMER LEVEL

- The enterprise must be CMSME, engaged in manufacturing or service sector.
- 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.

TENOR OF LOAN AT CUSTOMER LEVEL

- For Term Loans, maximum tenor is to be 5 years. A grace period not over 6 months may be allowed based on banker-customer relationship.
- Repayment of installment can be on monthly/quarterly/half yearly basis and to be determined by the bank based on the cash flow forecast.
- For working capital loans prevailing Bangladesh Bank circular(s) shall be applicable.

INTEREST RATE AT CUSTOMER LEVEL

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

LOAN LIMIT AT CUSTOMER LEVEL

- Depending on the nature and requirement, both working capital and term loans can be allowed.
- Financing will be done according to the Bank's existing list of approved products, and any other product subsequently approved by the Bank.
- Highest ceiling of loan limit as per CMSME master circular shall be applicable for cluster financing as well :

Loan Limit	Cottage	Micro		Small		Medium	
	Manufacturing	Manufacturing	Service	Manufacturing	Service	Manufacturing	Service
Highest loan limit	15 lac	1 Crore	25 lac	20 Crore	5 Crore	75 Crore	50 Crore

- A borrower can avail loans from one or more Bank/FI based on his/her need, but the cumulative loan limit shall not exceed the highest ceiling as per the CMSME Master circular. Cumulative loan limit of a borrower may be find out from CIB report of that borrower.

SECURITY/COLLATERAL/SUPPORT

- 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 complied with.
- Credit Guarantee Scheme, declared by Bangladesh Bank from time to time shall also be applicable in case of unsecured or partially secured loan under cluster finance.

LOAN APPROVAL PROCESS

- After receiving application, the bank's Business Unit will evaluate and decide on whether the enterprise is located in the specific cluster as per its own policy.
- The loan proposal will then go through the bank's usual approval process for lending to CMSMEs, albeit being governed by the related guidelines of the Bangladesh Bank regarding Cluster Financing.

REPORTING & MONITORING

- Bank will maintain the cluster finance-related data separately in the statement of affairs at the branch and head office levels.
- Bank shall submit cluster finance-related information to SMESPD, Bangladesh Bank, within 15th day of the following month of each quarter.
- Bank shall have its own work plan and monitoring program to ensure proper utilization of loans disbursed under cluster financing. ABBL shall assist Bangladesh Bank to conduct audits and inspections on the same from time to time.
- Region-based awareness activities may be arranged considering the socio- economic development of the country.
- As per existing instruction of Bangladesh Bank, Report on cluster financing is to be submitted on quarterly basis. Separate code on each cluster may be given to make easier of the reporting process.

OTHER TERMS AND CONDITIONS

- Bank shall follow the prevailing rules for provisioning and classification from time to time.
- For resolving any dispute, Bank's Credit Policy as well as different circulars issued by Bangladesh Bank shall prevail.



- CMSME Finance-related terms and conditions shall be applicable for other loan-related issues i.e. loan application processing, disbursement and monitoring.
- ABBL 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 ABBL for acknowledgment of stakeholders.
- ABBL 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 2/2019 shall be applicable for cluster finance.
- Any future amendments to the existing policy for Cluster Financing by Bangladesh Bank will prevail over stipulations in this policy document.

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