



# Cluster Financing Policy of Union Capital Limited (UCL)

## **A. Background:**

Cottage, Micro, Small and Medium Enterprise (CMSME) is the driving force of any economy, especially a developing country like Bangladesh which has more impact in the national economy. 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.

## **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.

### **According to the policy:**

- Financial institutions (FI) will formulate their own cluster financing policy. The policy must be approved by the board of directors of the respective Financial Institution.
- Approved policy to be circulated through the website of the Financial Institution.
- A copy of the policy is to be submitted to SMESPD, Bangladesh Bank.

Earlier Bangladesh Bank instructed the Financial Institution to develop its own Cluster Development policy in Policy Guideline for **Small and Medium Enterprise (SME) Credit Policies & Programs**, accordingly Cluster Development Policy of UCL was formulated. Now the previous policy is reviewed under purview of the recent changes.

However, any future directives from central bank will be effective with immediate effect over the UCL 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:

<i>Top Priority Clusters</i>	
1	<i>Agriculture/Food Processing and Agri machinery manufacturer industry</i>
2	<i>Readymade garments industry, Knitwear, design and beauty accessories</i>
3	<i>ICT</i>
4	<i>Lather and lather item industry</i>
5	<i>Light Engineering</i>
6	<i>Jute and Jute based industry</i>
<i>Priority Clusters</i>	
1	<i>Plastic &amp; other synthetic industry</i>
2	<i>Tourism Industry</i>
3	<i>Home Textile items</i>
4	<i>Renewable Energy (Solar Power)</i>
5	<i>Automobile manufacturing and repairing industry</i>
6	<i>Loom, handicraft and fine crafts</i>
7	<i>Electricity Savings Equipment (LED, CFL Bulb production)/Electronic equipment manufacturer/ Electronic material development industry</i>
8	<i>Jewelry industry</i>
9	<i>Toy Industry</i>
10	<i>Cosmetics &amp; Toiletries</i>
11	<i>Agar Industry</i>
12	<i>Furniture industry</i>
13	<i>Mobile/Computer/Television Servicing</i>

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

##### **Cluster-based Financing Target:**

- UCL must set a target of Cluster Financing to 10% of its net CMSME Portfolio in every year according to guideline by Bangladesh Bank. 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.
- FI must 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 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 SMESPD Circular no. 02/2019 master circular Clause no. 2.6 shall be applicable for cluster financing. i.e:

Loan/Investment Limit	Cottage Enterprise	Micro Enterprise		Small Enterprise		Medium Enterprise	
	Manufacturing Industry	Manufacturing Industry	Service Industry	Manufacturing Industry	Service Industry	Manufacturing Industry	Service Industry
Highest Loan/Investment Limit	15 Lac Taka	1 crore Taka	25 Lac Taka	20 Crore Taka	5 Crore Taka	75 Crore Taka	50 Crore Taka

- A borrower can avail of loans from more than one FI as per their need, but the cumulative loan limit shall not cross the highest ceiling as per the CMSME Master circular. Limit can be confirmed from the CIB Loan/Investment report.

**Interest rate at borrower level:**

- Interest Rates and Charges will be applicable as per the DFIM 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 lender 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.
- Facility can be given under Credit Guarantee Scheme, declared by Bangladesh Bank from time to time.

**Loan approval process:**

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

**Reporting and Monitoring**

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

**Other Terms and Conditions:**

- UCL 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.
- UCL 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 UCL for acknowledgment of stakeholders.
- UCL 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 Department, CHO which will include:

- Communication, coordination and arrangement of Cluster Financing Scheme from partners i.e., SME Foundation and or any other source.
- 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 of FI
- Monitoring and recovery of the loan.