

Cluster Financing Policy of MEGHNA BANK

Preface

Over the years, Cottage, Micro, Small & Medium Enterprises (CMSMEs) have been playing pivotal role in the growth and development of the country. According to various studies, CMSME sector accounts for over 90% of the total number of enterprises in the country and employs over 50% of the total labor force. Moreover, the MSME sector contributes approximately 40% of the country's Gross Domestic Product (GDP).

However, despite their significant contribution to the economy, CMSMEs in Bangladesh face numerous challenges in accessing formal financial services, which limit their growth prospects. In contrary to that, bank face challenges in reaching out heterogeneous small and medium-sized customers dispersed across the country. Moreover, due to having same interest rate ceiling for both SME and Corporate customers, the challenge gets further augmented for bank to increase CMSME lending by bearing higher distribution cost. A study conducted by the International Finance Corporation (IFC) estimated that only about 15% of MSMEs in Bangladesh have access to formal credit. Owing to that, majority of them cannot grow their business up to their potentials and fail to graduate to the next level.

In this respect, the Cluster Financing Policy aims to address the challenge by providing an efficient financing solution for CMSMEs, particularly those located in a certain geographic location or engaged in similar or related business. The policy is designed to promote financial inclusion for CMSMEs by providing them with access to affordable credit and other financial services, and thus supporting their growth and development.

The policy set henceforth is in line with the SMESPD Circular no 5, dated August 14, 2022 that encompasses different aspects of cluster financing as well as the credit policy of Meghna Bank and the PPGs of different loan products designed for CMSME segments. The policy will be subject to regular review and update to address changes resulting from regularity directives, market dynamics as well as internal policy of the bank.

Scope of Cluster Financing Policy

The policy is formulated in light of SMESPD Circular No. 05 issues on August 14, 2022, where the bank is advised to set forth their own Cluster Financing Policy, get that approved by the board of directors and circulate board approved policy in the website of the bank.

This policy shall act as a general guideline in identifying high priority and priority cluster within existing as well as proposed footfalls of Meghna Bank, promoting SME loan products to the prospective customers and meeting annual cluster financing target on a regular basis. Although this policy will be the primary reference point, necessary due diligence should be done in line with prevailing credit policy, PPG criteria and other credit criteria while underwriting any loan proposal.

Criteria of Cluster Financing

As per SMESPD Circular No. 05 issues on August 14, the following criteria shall be maintained for Cluster Financing.

1. Definition of Cluster

- A group of 50 or more entrepreneurs engaged in similar / homogenous / related products or services geographically located within maximum 05 Kilometer area will be collectively treated as a Cluster. All of them shall have similar kind of business strengths, weaknesses, opportunities, and threats.
- If any new definition is given in the National Industrial Policy or by Bangladesh Bank, the revised definition will be considered in lieu of the above definition.

2. Types of Cluster

- The following sectors should be considered as High Priority Cluster:
 - i. Agriculture/Food Processing and agri machinery manufacturer industry
 - ii. Readymade garments industry, Knitwear, design and beauty accessories
 - iii. ICT
 - iv. Lather and lather item industry
 - v. Light Engineering
 - vi. Jute and Jute based industry

- The following sectors should be considered as Priority Cluster:
 - vii. Plastic & other synthetic industry
 - viii. Tourism Industry
 - ix. Home textile items
 - x. Renewable energy (Solar Power)
 - xi. Automobile manufacturing and repairing industry
 - xii. Loom, handicraft and fine crafts
 - xiii. Electricity savings equipment (LED, CFL Bulb production)/Electronic equipment manufacturer/ Electronic material development industry
 - xiv. Jewelry industry
 - xv. Toy Industry

- xvi. Cosmetics & Toiletries
- xvii. Agar Industry
- xviii. Furniture industry
- xix. Mobile/Computer /Television Servicing

- In addition to those, bank may identify Other Cluster(s) if the above mentioned definition is met.

3. Cluster Financing Target

- For the year of 2023, Meghna Bank has set Cluster Financing target equivalent to 11% of its net CMSME Portfolio as of December 31, 2023. In 2024, the target will be increased by 1% to reach up to 12% of CMSME portfolio at the end of the year.
- Meghna Bank needs to disburse minimum of 50% its annual Cluster Financing target to High Priority Cluster and Priority Cluster. The rest portion (maximum 50%) can be disbursed to Other Cluster(s).
- If deemed necessary, Bangladesh Bank may revise / adjust the target from time to time.

4. Customer's Eligibility under Cluster Financing

- The customer must be from CMSME segment engaged either in Manufacturing or Service business. Trading business is not allowed.
- The customer must belong to a specific cluster, as defined above.
- If there is any association in the particular cluster, the customer must be a member of that association.
- The customer must not be a defaulter as per the CIB report.
- If the entrepreneur attains minimum one month of training on the relevant business from any government or reputed private institution, he/she will get priority in availing loan.
- If there is any woman customer and customer with special needs in any particular cluster, such customers shall get priority.

5. Facility Structure

- Customer can avail both working capital and term loan facility based on their requirement and underlying purpose.
- Maximum loan amount for manufacturing and trading business shall be determined as per CMSME master circular.
- Customer can avail of facility from multiple bank/FI. However, cumulative loan amount shall not exceed the maximum limit as specified in CMSME Master circular.
- Interest Rates and charges will be determined as per the BRPD circular on Interest rate and schedule of charges. However, if the loan is eligible for any pre-finance/refinance scheme, the underlying rate of that scheme shall be applicable.

- Maximum loan tenure will be 5 years in case of term loan with a grace period of 06 months max. Loan can be repaid in monthly/quarterly/half yearly installments. And the tenure of working capital facility shall be determined as per relevant circular.
- Personal, Social or Group Guarantees can be considered as security in accordance with CMSME Master Circular. Moreover, Credit Guarantee Scheme can be taken for unsecured or partially secured loan under Cluster Financing.

6. Loan Approval Process

- Upon receiving loan application from eligible customer, MEGHNA BANK shall assess the proposal as per its own credit policy, determine the cluster applicable for that customer and then approve the proposal.
- After receiving the application, MEGHNA BANK must ensure that the enterprise is located in the specific cluster as per its own policy.

7. Reporting and Monitoring

- MEGHNA BANK shall maintain separate records of Cluster Financing in the statement of affairs both at the branch level and head office level.
- MEGHNA BANK shall submit Cluster Financing information to SME SPD, Bangladesh Bank within 15th day of the following month of each quarter end.
- In order to ensure proper utilization of loan under Cluster Financing, MEGHNA BANK shall have specific action plan and monitoring program. In this respect, MEGHNA BANK shall also assist Bangladesh Bank to conduct physical visit and inspections from time to time.
- To promote Cluster Financing, MEGHNA BANK may arrange regional awareness programs considering its overall importance in the socio-economic development of the country.

8. Other Terms and Conditions

- If customer fails to repay the loan in due time, MEGHNA BANK shall follow relevant rules for provisioning and classification as per BRPD guidelines.
- For other financing related issues like Loan Application, Processing, Disbursement, Fund Utilization, Collection & Monitoring, prevailing CMSME policies shall be followed.
- MEGHNA BANK shall submit Cluster Financing related information & documents to Bangladesh Bank as per requirement.
- In order to inform the stakeholders about Cluster Financing, MEGHNA BANK shall disclose related information in the Notes of the Financial Statements.
- MEGHNA BANK may use Mobile Financial Services / Digital Financial Service / Other Technology for disbursement and collection of loans under Cluster Financing.
- MEGHNA BANK shall facilitate low cost financing for Cluster Financing customers by availing facility from different refinance schemes of Bangladesh

Bank in order to ensure socio-economic development.

- All other instructions of CMSME Master Circular shall also be applicable for Cluster Financing.

Business Management

The Cluster Financing program will be managed by SME Business team under Retail & SME Banking Division. In order to ensure development of Cluster Financing and achievement of yearly target, SME Business team shall undertake the following activities:

- Arranging capacity building programs for both customers and bank officials to develop Cluster Financing.
- Identification and selection of Clusters and assigning respective branches to extend Cluster Financing to those Clusters.
- Arranging low cost refinancing and CGS facility for Cluster Financing customers.
- Ensuring regular reporting to Bangladesh Bank and other internal & external stakeholders.
- Partnering with other concerned bodies like SME Foundation to patronize Cluster Financing.
- Regular monitoring and review of Cluster Financing portfolio and taking timely measures to maintain portfolio quality.
- Regular monitoring and review of Cluster Financing portfolio and taking timely measures to maintain portfolio quality.
- Exploring alternative distribution channels like MFS/DFS/Fintech etc. to enhance Cluster Financing reach in a cost effective manner.

Policy Review & Amendment

This policy shall be reviewed and if required, amended, on yearly basis. However, under any special circumstances, management may go for interim review and amendment of this policy to accommodate subsequent changes in Bangladesh Bank policy, government policy, changes in market dynamics and changes in the policies & guidelines MEGHNA BANK. The Managing Director & CEO shall have the authority to approve any subsequent change.