

CLUSTER FINANCE POLICY

OF

MERIDIAN FINANCE & INVESTMENT LIMITED (MFIL)

Backdrop

Cluster Finance is one of the important terms in CMSME arena. The word “Cluster” may be defined as geographically proximate group of interconnected concerns, suppliers, service providers and associated institutions in a particular field, linked by externalities of various types. It contains a mix of industries related to by knowledge, skills, inputs, demand, and other linkages. In a nutshell, it is a geographic and economic concentration of manufacturing activities or service providers which produce and sell a domain of interrelated and complementary products.

To promote CMSME, Cluster based financing is visibly tactic and widely accepted approach, which might support, helps to grow and strengthen CMSME and their activities.

Purpose

Bangladesh have prospective clusters, if, patronized with due support (with financing activities, policy etc.), these clusters may flourish further. They might play an important role towards economic development of Bangladesh, as a whole. In view of above, Bangladesh Bank has decided to implement specific guidelines for the development of cluster and issued SMESPD Circular no. 05, dated August 14, 2022.

Based on the prospect of cluster finance, MFIL has decided to be aligned with the spirit of SME & Special Programs Department (SMESPD) of Bangladesh Bank. MFIL has developed a Cluster Financing Policy, which is appended below. This may be noted that this policy may change to accommodate the instruction by Bangladesh Bank with time-to-time. Thus be duly notified to the Board with immediate effect for review and approval.

Besides, Bangladesh Bank has instructed to:

- a) Develop a separate cluster policy
- b) Obtain approval from Board of Director
- c) Publish in its own website and
- d) Inform SMESPD of Bangladesh Bank in writing

Cluster definition by Bangladesh Bank

50 (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.

Cluster identification

There are several bunch of similar manufacturing / service activates which have already been identified as cluster throughout Bangladesh which is published by Bangladesh Bank in it's CMSME booklet. Within this clusters, Bangladesh Bank has marked some of the clusters as "Top Priority" & "Priority", in this circular, which is furnished below:

<u>TOP PRIORITY CLUSTERS</u>	
01.	Agriculture/Food Processing and agri machinery manufacturer industry
02.	Readymade garments industry, Knitwear, design and beauty accessories
03.	ICT
04.	Lather and lather item industry
05.	Light Engineering
06.	Jute and Jute based industry
<u>PRIORITY CLUSTERS</u>	
01.	Plastic & other synthetic industry
02.	Tourism Industry
03.	Home Textile items
04.	Renewable Energy (Solar Power)
05.	Automobile manufacturing and repairing industry
06.	Loom, handicraft and fine crafts
07.	Electricity Savings Equipment (LED, CFL Bulb production)/Electronic equipment manufacturer/ Electronic material development industry
08.	Jewelry industry
09.	Toy Industry
10.	Cosmetics & Toiletries
11.	Agar Industry
12.	Furniture industry
13.	Mobile/Computer /Television Servicing

Note: Any other cluster which is not in the above list, identified by Meridian Finance & Investment Limited (MFIL), shall be treated as other clusters.

1. Cluster-based Financing Target:

- A) The Bank has to set a target of Cluster Financing to 10% of its net CMSME Portfolio as of 31 December 2022. The target is to be increased by 1% additional each year and reach up to 12% at the end of the year 2024.
- B) Bangladesh Bank may revise/reset the target if necessary.
- C) 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.

2. Eligibility of the borrower under cluster Finance:

- A) The enterprise must be CMSME engaged in manufacturing or service. CMSME should be as per definition provided by SMESPD Circular no. 02, issued on September 05, 2019.
- B) It must be located in the specific cluster.
- C) If there is an association of entrepreneurs in the cluster, the entrepreneur must be a member of the association.
- D) Women and special needs entrepreneurs under a cluster will get priority.
- E) The borrower should not be a defaulter as per CIB report
- F) 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

3. Loan type and size for borrower:

- A) Depending on the nature and requirement both working capital and term loans can be given.
- B) Loan limit would be fixed as per existing credit policy of MFIL and
- C) The cumulative loan limit shall not cross the highest ceiling as per the CMSME Master circular, referred above.

4. Interest rate & schedule of charges for borrower:

- A) Interest Rates and Charges will be applicable as per the instruction of BRPD, DFIM and SMESPD circular on the rate of interest and Schedule of Charges
- B) Interest rate on loan (without refinance) will be as per credit policy of MFIL

5. Tenure of the loan for borrower:

- A) For a Term loan maximum tenor will be 5 years. A grace period not over 6 months can be given based on MFIL-client relationship.
- B) For working capital loans maximum tenor will be 1 year.

6. Security:

- A) Security will be applicable as per credit policy of MFIL
- B) Personal guarantees can be considered as security. In that case directives of SMESPD Circular 02/2019 clauses 7.1 may be considered.

7. Loan approval process:

As per existing credit policy and operational procedure of MFIL

8. Other Terms and Conditions:

- A) Cluster Finance-related specific information shall be added in the notes section of the Balance Sheet of MFIL for acknowledgment of stakeholders.
- B) All other instructions will be applicable as per SMESPD Circular No. 05 dated August 14, 2022 and SMESPD Circular No. 2 dated September 05, 2019 OR any other circulars issued by Bangladesh Bank from time to time in case of cluster finance.

9. Reporting & Monitoring:

- A) MFIL has to maintain the cluster finance-related data separately in the statement of affairs at the branch and head office levels.
- B) Submit cluster finance-related information to SME SPD, Bangladesh Bank, quarterly, within 15 of the following months.
- C) MFIL shall have its own work plan and monitoring program to ensure proper utilization of loans disbursed under cluster financing. MFIL shall assist Bangladesh Bank to conduct audits and inspections from time to time.

10. Other matter related to cluster finance by MFIL:

- A) MFIL would initiate area based approach, to explore the adjacent clusters. Then would gradually explore beyond the adjacent area.
- B) In case of cluster policy, MFIL would follow the Bangladesh Bank circular in such manner so it will not contradict against it's existing credit policy.

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