

IPDC Finance Limited
Approval of Cluster Financing Policy

Background:

The CMSME market has a significant impact on the nation's economic growth. Cluster finance has gained widespread acceptance as a way to advance this crucial sector. If Bangladesh's potential clusters receive the proper support, it will unquestionably have a very favorable effect on the nation's economic growth. According to Circular No. 02/2019, Paragraph No. 4.2, the Banks & Financial Institutions (FIs) have been directed to provide the Cluster Finance in the CMSME Segment with significant consideration in this regard. By examining the most recent data in the CMSME segment, Bangladesh Bank has formulated a Cluster Policy (SMESPD No. 05) on 14th August 2022 and instructed Banks and FIs to develop their own policy in conformity with the guideline of Bangladesh Bank.

In conformity with Bangladesh Bank circular (SMESPD No. 05), following cluster financing policy of IPDC has been formed. The particulars are as below:

1. Cluster Financing Criteria:

Particulars	Descriptions																										
Cluster Definition	The concentration of at least 50 or more homogenous/similar/related entrepreneurship businesses, involved in manufacturing or service activities, within a radius of maximum 5.00 Kilometers geographical area, can be considered as a Cluster.																										
Purpose of Loan	Business Expansion and working capital																										
Financing Model	Financing can be done both individually and by Group (For Group Financing, Group Guarantee is required).																										
Loan size	<p>Maximum financing limit will be same as maximum financing limit mentioned in SMESPD master circular. (Ref: SPESPD#2, Dt. 05.09.2019)</p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th rowspan="2">Financing Limit</th> <th colspan="2">Cottage</th> <th colspan="2">Micro</th> <th colspan="2">Small</th> <th colspan="2">Medium</th> </tr> <tr> <th>Manufacturing</th> <th>Service</th> <th>Manufacturing</th> <th>Service</th> <th>Manufacturing</th> <th>Service</th> <th>Manufacturing</th> <th>Service</th> </tr> </thead> <tbody> <tr> <td>Max. Financing Limit</td> <td>15 lacs</td> <td></td> <td>1 Crore</td> <td>25 Lacs</td> <td>20 Crore</td> <td>5 Crore</td> <td>75 Crore</td> <td>50 Crores</td> </tr> </tbody> </table> <p>The loan facility availed by an entrepreneur from more than one bank/FI cannot exceed the maximum Financing limit mentioned in the circular.</p>	Financing Limit	Cottage		Micro		Small		Medium		Manufacturing	Service	Manufacturing	Service	Manufacturing	Service	Manufacturing	Service	Max. Financing Limit	15 lacs		1 Crore	25 Lacs	20 Crore	5 Crore	75 Crore	50 Crores
Financing Limit	Cottage		Micro		Small		Medium																				
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Max. Financing Limit	15 lacs		1 Crore	25 Lacs	20 Crore	5 Crore	75 Crore	50 Crores																			
Target	At least 10% Cluster wise financing, of the CMSME portfolio as on 31st December 2022. Later, this target needs to be increased at least 1% yearly, and increase to at least 12% within year 2024.																										
Interest Rate	Interest rate under this facility shall be competitive considering the cost of fund and pricing decision of ALCO, market trend and Regulatory instruction. However, in case of refinance, pre-finance or any other subsidized fund/ scheme, respective fund/ scheme policy will be taken into account.																										
Facility Type	Short term loan and long-term loan based on EMI or Structured payment.																										
Financing Tenor	Up to 60 months																										
Target Groups	Cottage, Micro, Small and medium Cluster enterprises (Manufacturing and Service)																										
Legal Form of Business	Sole proprietorship, Partnership and Company																										
Business Location	Defined cluster areas all over Bangladesh, mostly in 19 highly preferred & preferred cluster identified by Bangladesh Bank and updated by Bangladesh Bank, IPDC & through National Industry Policy.																										
Priority Customer	<p>Following Entrepreneurs will get preference under cluster financing:</p> <ol style="list-style-type: none"> i. Entrepreneurs get 1 month training on relevant business from Government/any reputed private, and ii. Women Entrepreneurs and Entrepreneur with a special need, within the cluster. 																										

Particulars	Descriptions
Security	<ul style="list-style-type: none"> - Personal/social/group guarantee under paragraph no. 7.1, 7.2 & 7.3 of SMESPD Master circular (Ref. SMESPD# 02, dt. 05.09.2019) can be considered as Security. - Financing can be also done under the credit guarantee scheme issued by Bangladesh Bank time to time.
Grace Period	The maximum limit of grace period should not exceed 06 months from the date of disbursement.

2. Cluster Team: A cross-functional team will be formed which will oversee new cluster identification, awareness building, post financing monitoring and bringing new financial scope to the company. The cluster team will report directly to the Head of SME and overall co-ordination role among the cross-functional team will be ensured by in-charge of cluster financing team.

3. Cluster Inclusion & Review Process: The cross-functional team will conduct visit to the potential cluster area, prepare feasibility report and submit the report to Head of SME and Head of CRM through a convened meeting. Based on their opinion or opinion from officials nominated by them, a cluster can be included.

Each year the clusters being financed will be visited and a visit report(s) prepared to demonstrate the current conditions of the cluster. The visit report will guide in adjusting of financial parameters or may result in halting of financing for a particular cluster altogether. The approval authority of cluster inclusion will oversee the cluster review process and take decision accordingly.

5. Post Finance Reporting and Monitoring: Post finance monitoring will cover regular RM visit, Overdue client visit, Facility utilization report, Early alert report and Potential Sector Identification and portfolio diversification. Besides that,

- i. IPDC Finance will report on the financing facilities under the cluster finance in the statement of affairs both head office and branch wise.
- ii. IPDC Finance will submit their Report regarding Cluster financing to the SME & Special Program Department of Bangladesh Bank, according to the specific table, in every quarter end within the stipulated timeframe provided by Bangladesh Bank.
- iii. For ensuring proper utilization of the loan/investment, IPDC will follow their own specific action plan & monitoring system.
- iv. For the aggregate socio-economic development of the country, considering the importance of cluster finance, IPDC will take initiatives on area wise awareness activities.

Based on the submission, the EC is requested to note the content of this paper and recommended the Cluster Financing Policy to the Board for approval as presented.

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Cluster Financing Policy
Version: 1.0 (Draft)
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Approval Level: The Board of Directors (BoD)
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IPDC Finance Limited



Contents

1. Introduction.....	3
1.1 Background:	3
2. Definition of Cluster:	3
2.1 Cluster Identification:	3
3. Objective of this Guideline:	4
4. Cluster Financing at IPDC	4
4.1 IPDC's Opportunity	4
4.2 Cluster Team	4
4.3 Cluster Inclusion and Review:.....	5
5. Cluster Financing Criteria:.....	5
6. Client's Eligibility:	6
7. Approval, Disbursement & Repayment:	6
8. Fees and Charges:	7
9. Post Finance Reporting and Monitoring:	7

1. Introduction

1.1 Background:

The importance of CMSME segment is immense for the economic development of the country. To take CMSME segments, cluster finance has become a widely held concept. If the potential clusters of Bangladesh get proper support, it will definitely have a significant impact on the economic development of the country. In this consideration, the Banks & Financial Institutions (FIs) have been instructed to consider the Cluster Finance in the CMSME Segment with much importance.

According to SMESPD Circular No. 02/2019, each Bank & Financial Institution (FI) was instructed to set their cluster-based financing target while setting their annual loan/investment portfolio. It is notable that for the year 2022, the Banks & FIs was instructed to ensure the achievement of at least 10% Cluster wise financing of the CMSME portfolio as on 31st December 2022. Later, this target needs to be increased at least 1% yearly, and increase to at least 12% within 2024.

In line with the mission and vision of our Government, IPDC Finance wholeheartedly believes that nationwide cluster development will bring endless opportunity and growth to our country. Considering the importance of cluster financing in Bangladesh, IPDC Finance has already initiated diversified approaches towards various clusters to open a new window for catering this segment.

2. Definition of Cluster:

The concentration of at least 50 or more homogenous/similar/related entrepreneurship businesses, involved in manufacturing or service activities, within a radius of maximum 5.00 Kilometers geographical area, can be considered as a Cluster. In this case, the entrepreneurship businesses situated within the cluster will have similar types of business strengths, weaknesses, opportunities, and threats.

**The definition of cluster might be revised depending on the proposition of 'National Industrial Policy' and Bangladesh Bank Circular.*

2.1 Cluster Identification:

As per Bangladesh Bank circular, based on the product and service nature of the organizations within the clusters, the clusters can be categorized under Highly Preferred and Preferred clusters, as given below:

Highly Preferred Clusters	
01.	Agriculture/Food Processing and Agriculture Equipment Manufacturing Industry
02.	Ready Made Garments Industry, Knitwear, Design & Decoration
03.	ICT
04.	Leather & Leather Goods Industry
05.	Light Engineering
06.	Jute & Jute Products
Preferred Clusters	
01.	Plastic & Other Synthetics Industry
02.	Tourism Industry
03.	Home Textile Goods
04.	Renewable Energy (Solar Power)
05.	Automobile Manufacturing & Repairing Industry
06.	Yarn/Fabrics & Handicrafts Manufacturer
07.	Electricity Saving Equipment (LED, CFL Bulb Manufacturing)/Electronic Equipment Manufacturing Industry/ Electronic Material Development Industry

08.	Jewelry Industry
09.	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”.

** At least 50% of the cluster-wise financing target should be disbursed in the above-listed clusters and maximum 50% in other clusters.

***The above list could be adjusted according to the list provided by “The National Industrial Policy” in future.

3. Objective of this Guideline:

The objective of this guideline is to ensure the mission and vision of IPDC finance to cater to the nationwide cottage, micro, small and medium entrepreneurs. IPDC firmly believes that the growth and development of this sector will enlarge the business horizon and make sustainable growth to the country’s economy. Besides that, this guideline will help IPDC finance attain the regulatory target of 12% cluster wise financing of CMSME portfolio by December 2024.

To reach the target, the guideline will analyze and highlight the way of doing business in this segment along with a focus on following factors so that a prospective business can be ensured with controlling the risk hygiene:

- Setting business boundary and policy for cluster financing
- Product basket for Cluster financing.
- Control parameters and underwriting benchmarks

4. Cluster Financing at IPDC

4.1 IPDC’s Opportunity

IPDC Finance has a long-awaited vision to facilitate the micro and cottage sector of our country. The initiative taken by Bangladesh Bank regarding cluster financing is an alignment with IPDC’s mission and vision. As a result of this opportunity, IPDC has already initiated visiting different untapped clusters to understand their business model, sales information, repayment style and other financing opportunities. This visit has given us the insight that if we can bring this cottage and micro segment to the traditional banking umbrella, it will make the business prospect larger and will give us a sustainable economy. In addition to that, IPDC has already financed to different clusters within the highly preferred clusters and preferred clusters list identified by Bangladesh Bank.

The opportunity can be tapped in following manners:

- ✓ IPDC can use its branch network to visit adjacent clusters and go cluster-based approach.
- ✓ IPDC can make visits with collaboration of multiple stakeholders, for instance, SME Foundation, NGOs and other government and non-government entities.

4.2 Cluster Team

The cluster financing core team will consist of members from a cross-functional team. This team will oversee new cluster identification, awareness building, post financing monitoring and bringing new financial scope to the company. From time to time the composition of the team may be reviewed and members from any function may be added or removed as per business requirement and overall IPDC target. The cluster team will report directly to the Head of SME and overall co-ordination role among the cross-functional team will be ensured by in-charge of cluster financing team.

Role of the team will be as follows:

- Cluster selection & SWOT analysis of Clusters
- Designing PPGs and parameter-based financing approach.
- Periodical review of PPGs (When needed)
- Ensuring post financing monitoring
- Facilitating documents when needed
- Policy review and Bangladesh Bank regulatory issues update
- Capacity development and awareness building

4.3 Cluster Inclusion and Review:

Cluster Inclusion: Before including any cluster, the cross-functional team will visit the relevant cluster first. This visit can be conducted solely by the cluster team or can be collaborated with different government and non-government bodies. After that the team will go through the SWOT analysis of the visited cluster and make a cluster feasibility report. Then the team will convene a meeting with the Head of CRM and the Head of SME where the Heads or the nominated official(s) will conduct the meeting and will give their opinion on the basis of the provided cluster feasibility report. Based on their decision towards the cluster, a cluster can be included.

Cluster feasibility report format includes business model; major fixed assets and machineries; employment; major customers, suppliers & financier; favorable aspects; risk factors etc. However, any necessary inclusion of parameters can be added based on the cluster’s specifications and geographical location.

Cluster Review: Each year the clusters being financed will be visited and a visit report will be prepared to demonstrate the current conditions of the cluster. The visit report(s) will guide in adjusting of financial parameters or may result in halting of financing for a particular cluster altogether. The approval authority of cluster inclusion will oversee the cluster review process and take decision accordingly.

5. Cluster Financing Criteria:

This is a short term or long-term financing facility 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							
Financing Model	Financing can be done both individually and by Group (For Group Financing, Group Guarantee is required).							
Loan size	Financing	Cottage	Micro		Small		Medium	
	Limit	Manufacturing	Manufacturing	Service	Manufacturing	Service	Manufacturing	Service
	Max. Financing Limit	15 lacs	1 Crore	25 Lacs	20 Crore	5 Crore	75 Crore	50 Crores
<p><i>* One Entrepreneur can avail loan facility from more than one Bank or FI. However, total loan cannot exceed the mentioned limit. This fact can be ensured by observing the Financing information of the CIB report.</i></p>								

Target	For the year 2022, the Banks & FIs was instructed to ensure the achievement of at least 10% Cluster wise financing of the total CMSME portfolio as on 31st December 2022. Later, this target needs to be increased at least 1% yearly, and increase to at least 12% within 2024.
Facility Type	Short term loan and long-term loan based on EMI or Structured payment.
Financing Tenor	Up to 60 months
Interest Rate	Interest rate under this facility shall be competitive considering the cost of fund and pricing decision of ALCO, market trend, Regulatory instruction. However, in case of refinance, pre-finance or any other subsidized fund/ scheme, respective fund/ scheme policy will be taken into account.
Security	<ul style="list-style-type: none"> - For financing Personal/social/group guarantee can be considered as security. In this case, according to the SMESPD Circular No. 02/2019, paragraph no. 7.1, 7.2, & 7.3, personal, social or group guarantee will be applicable. - Financing can be done under the credit guarantee scheme issued by Bangladesh Bank time to time. - Other securities are applicable as per credit policy.
Grace Period	The maximum limit of grace period should not exceed 06 months from date of disbursement

6. Client's Eligibility:

Target Groups	Cottage, Micro, Small and medium Cluster enterprises (Manufacturing and Service)
Legal Form of Business	Sole proprietorship, Partnership and Company
Business Location	Defined cluster areas all over Bangladesh
CIB Report	Satisfactory CIB performance is required
Priority Customer	<ul style="list-style-type: none"> i. The entrepreneur will get preference for getting the loan, if he/she received any training on the relevant business of 1 month from any Government or any reputed private organization. ii. The Women Entrepreneurs and Entrepreneur with a special need, within the cluster, will get preference for availing the loan.

7. Approval, Disbursement & Repayment:

- i) To avail the loan facility, eligible entrepreneurs will first apply for the loan to IPDC Finance Limited. Then according to the cluster finance policy, IPDC will determine their eligibility and further proceedings.
- ii) The financing facility will be approved according to the IPDC's own credit policy.
- iii) In terms of disbursing the loan/investment to the clients, IPDC will follow the existing CMSME guideline regarding the tenure of application receiving & processing, disbursement of the loan/investment, proper utilization, monitoring, & collection etc.
- iv) The disbursement will be made through account payee cheques/real-time gross settlement (RTGS) /pay order or if possible Mobile Financial services in favor of the vendor after receiving all the relevant fees.
- v) The repayment can be made through cheques/bank transfer/ Mobile Financial services or any other convenient form in favor of IPDC finance limited.

8. Fees and Charges:

Fees and Charges will be applicable as per IPDC's schedule of charges complying with Bangladesh Bank guideline.

**No Early Settlement fee will be applicable for cottage and micro industry.*

9. Post Finance Reporting and Monitoring:

Relationship manager (RM) will be primary contact person of IPDC. After getting approval, the cluster unit will be continuously monitoring the client. The main objective of this strategy will be maintaining good relationships along with detecting post financing business pulse. Post finance monitoring will cover regular RM visit, Overdue client visit, Facility utilization report, Early alert report and Potential Sector Identification and portfolio diversification. Besides that,

- IPDC Finance will report on the financing facilities under the cluster finance in the statement of affairs both head office and branch wise.
- IPDC Finance will submit their Report regarding Cluster financing to the SME & Special Program Department of Bangladesh Bank, according to the specific table, in every quarter end within the stipulated timeframe provided by Bangladesh Bank.
- For ensuring proper utilization of the loan/investment, IPDC will follow their own specific action plan & monitoring system.
- For the aggregate socio-economic development of the country, considering the importance of cluster finance, IPDC will take initiatives on area wise awareness activities.