



CLUSTER FINANCE POLICY

Bangladesh Finance



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Purpose of the Policy:

To make better use of clusters for promoting regional industrial modernization, supporting the growth of CMSMEs and encouraging smart specialization. The objective of this Policy to Cluster Policy is to promote the transition towards modern cluster policies by looking at what type of support tools can be put in place in order to create growth opportunities and address the challenges likely to be faced. The guide offers practical help by outlining some of the concept of clusters and offering insights of cluster policy.

To offer financial services for Cottage, Micro and Small sized business who have limited access or no access / no credit history with Banks and Financial Institutions as they do not prepare proper financial statement as well as do not maintain proper licensing. Our experienced official will help them as per the guideline to prepare proper financial statement, proper licensing and make them fit to get financial services from Bank/FI eventually help the CMSME's to

- ▶ Reduce the income inequality
- ▶ Increase employment
- ▶ Generation of economic growth
- ▶ Increase market competition
- ▶ Providing backup for big industries.

Background:

The continuous effort for survival, expansion and improvements by Cottage, Micro, Small, Medium Enterprise (CMSMEs) in the economy of Bangladesh have resulted in occupying the dominant source of industrial employment. In Bangladesh, about 90% of the industrial unit are CMSMEs. This strong presence puts the CMSMEs in a significant position on the national economy. CMSME assume to play a vital role in the creation of employment, value addition to gross domestic product, foreign exchange earnings and reducing poverty. Therefore, if this diverse need of CMSME can be address properly it will help to reshape the future economy of Bangladesh in a better direction toward sustainable growth. The mapping of Cottage, Micro, Small, Medium Enterprise cluster scattered all over the Bangladesh has been considered as one of the prerequisites in order to take any initiative to boost up the cluster based CMSME business.

Introduction:

In general, cluster can be defined as sectoral and geographical concentration of enterprises, having common opportunities and threat.

Areas are a driving force in this guideline, as favorable place-based business conditions are helping to incentivize actors in the real economy, notably Cottage, Micro, small and medium-sized enterprises (CMSMEs). Clusters are a powerful tool for reaching out to groups of specialized CMSMEs and related innovation actors, and for increasing their competitiveness. The full potential of clusters is unlocked when policies and CMSME support measures are in place that can structure the co-creation process and thus direct towards smart specialization.

The importance of CMSME cluster located across the country cannot be ignored while promoting CMSMEs.

What is Cluster?

Cluster has no generally accepted definition. It is difficult to identify a universal definition of cluster. The term "Cluster" is used quite indiscriminately for a broad range of business arrangement. In broad sense the term "Cluster" is used to designate a group of firms engaged in similar or related activities within a national economy.

In Bangladesh context, taking into account the characteristic of globally accepted definition and current socio-economic context of Bangladesh, a more elaborate definition is given below:

A cluster is a concentration of enterprises producing similar products or services and is situated within an adjoining geographical location having common strength, weaknesses, opportunities and threats.

Bangladesh Bank said an area would be considered a cluster **if there are 50 or more firms producing homogenous or related products and services in a 5-kilometre radius.**

Key Criteria Selected to define a CMSME Cluster in Bangladesh are:

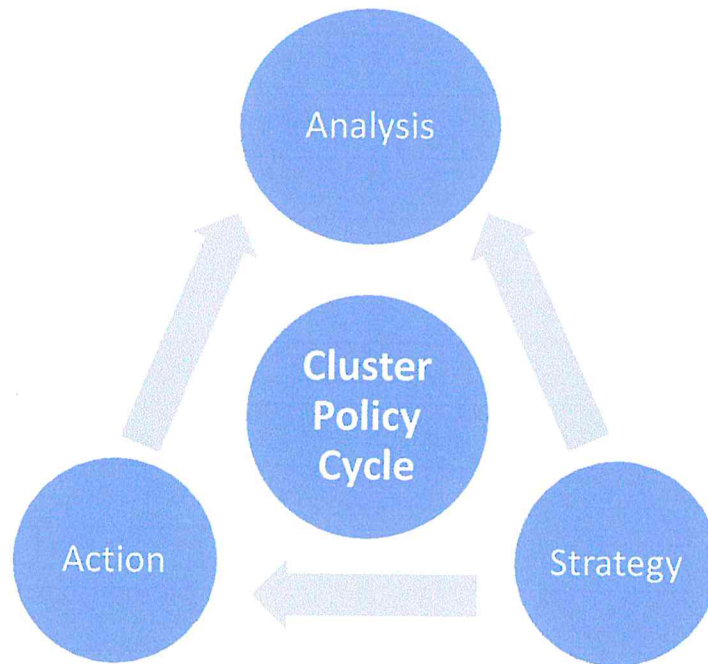
1. Homogenous Product or Service along with related products
2. No of Units: Minimum 50
3. Enterprises must be production or service units including forward or backward linkage industries
4. Adjoining geographical location: Several villages, wards, unions and industrial estates
5. Scattered within an area of 5 Kilometer radius

CMSME Cluster in Bangladesh:

SME foundation of Bangladesh identified a total number of 177 SME clusters where 129 cluster including under SME booster sectors and 48 include under non booster sector in 51 districts in Bangladesh. A study by SME Foundation shows that

- **Total No of SME Cluster in Bangladesh** : 177 (**Annexure)
- **No of Cluster under SME Booster Sectors** : 129
- **No of Cluster under SME Non-Booster Sector** : 48
- **Total no of Employees and workers (Approximate)** : 69,902
 - **Male: 74%**
 - **Female: 26%**
- **Average no of Employees and Workers / Enterprise** : 28
- **Average no of Employees and Workers / Cluster** : 10,948
- **Average no of Enterprise / Cluster** : 394

Cluster Policy System:



Analysis:

- Assessing the impact of activities; achievements in specific fields
- Analyzing the composition of the regional economy
- Understanding the regional potential for cluster development
- A comprehensive diagnosis of a location's competitiveness needs to combine an analysis of clusters with a broader analysis of economic performance, the quality of the business environment, institutional structures, and other aspects that have an impact on the regional economy. The cluster-specific information adds an important element to the analysis, and often increases its relevance to specific firms.

Strategy:

- Selecting priority fields and activities

Action:

- Implementing activities as per Credit Policy



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Do's and Don'ts of Cluster:

Do's:

- Support new activities, in particular those being undertaken by groups or networks of related industries
- Facilitate the growth of clusters by building upon existing strengths
- Follow a systemic cluster approach focusing on related industries by capturing cross-sectoral linkages
- Support cluster initiatives that have an international perspective on the positioning of the cluster in international value chains
- Fund strategic cluster initiatives that focus on promoting the strengths, linkages and emerging competences and which are in line with the aims of Sustainable Development Goals (SDGs)

Don'ts:

- Support individual specialized firms
- Fund large numbers of widely varied clusters
- Follow growth trends without reflection
- Follow a narrow sectoral cluster approach
- Support cluster initiatives that are only inward looking

Outcome:

- Clusters are essential, but to be effective they need the right framework of funding, commitment, and support for smart specialization
- Building trust is critical for cooperation and involves focusing on strengths, adding value and connecting the right people
- Visualization is needed to demonstrate a long-term vision by moving from the abstract to the concrete and from the past to the present to the future

Cluster Priority: As per Bangladesh Bank Guideline the following cluster are identified as Cluster with high priority and Cluster with Priority:

Cluster with Higher Priority:

- Agro Processing / Agri Business / Plantation Agriculture /Specialist Farming / Tissue Culture
- Knitwear and Readymade Garments
- ICT
- Leather Making and Leather Goods
- Light Engineering and Metal Working
- Jute and Jute Product

Cluster with Priority:

- Plastic and Other Synthetic
- Tourism Industry
- Handloom and Specialized Textile
- Renewable energy (Solar Power)
- Automobile Production and Service
- Handicraft & Miscellaneous Sector
- Electronics and Electrical
- Jewelry industry
- Toy Industry
- Cosmetic and Toiletries
- Agar Industry
- Furniture Industry
- Mobile / Computer / Television Service

Since we don't have a branch or sales network nationwide, the management has primarily chosen the following clusters for financing. However, depending on the branch and sales network, management may place more clusters on the priority and high priority lists.

High Priority Cluster	Preferable Cluster Location
<ul style="list-style-type: none"> Agro Processing / Agri Business / Plantation Agriculture /Specialist Farming / Tissue Culture 	<ul style="list-style-type: none"> Narayanganj Narayanganj City Corp. Jhikorgacha, Jashore Chattogram Port Potia Jhikorgacha Ishwardi, Pabna Pabna Sadar
<ul style="list-style-type: none"> Knitwear and Readymade Garments 	<ul style="list-style-type: none"> Khilkhet Mirpur Adabor, Mohammadpur Gazipur Sadar Narayanganj City Corp. Narayanganj Sadar Pabna Sadar Belkuchi Shajadpur Ullapara
<ul style="list-style-type: none"> Leather Making and Leather Goods 	<ul style="list-style-type: none"> Adabor Hazaribag Kamrangirchar Suritola Dhaka, Kotwali Lalbag Pallabi Chattogram City Corp.
<ul style="list-style-type: none"> Light Engineering and Metal Working 	<ul style="list-style-type: none"> Pachlaish Pahartali Sitakundu Jatrabari Kamrangirchar Kotwali Lalbag Wari Sutrapur Jashore Sadar Habiganj Double Muring Chattogram City Corp.

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Priority Cluster	Preferable Cluster Location
<ul style="list-style-type: none"> Plastic and Other Synthetic 	<ul style="list-style-type: none"> Chalkbazar Kamrangirchar
<ul style="list-style-type: none"> Handloom and Specialized Textile 	<ul style="list-style-type: none"> Sathiya, Pabna Ullahpara Shirajgonj
<ul style="list-style-type: none"> Handicraft & Miscellaneous Sector 	<ul style="list-style-type: none"> Jhikorgacha Magura Sadar Habiganj Shahestaganj, Habiganj Gowainghat
<ul style="list-style-type: none"> Electronics' and Electrical 	<ul style="list-style-type: none"> Jatrabari Kodomtoli Dhonia Syampur Matuail

Description of Product within the Identified Cluster:

The businesses within the clusters produce a wide range of goods and services. To capture every product, a very challenging task is required. There were notable differences in the product range between regions and sectors. The following list of key goods and services is organized by sector:

Sector	Product / Services
<ul style="list-style-type: none"> ➤ Agro Processing / Agri Business / Plantation Agriculture /Specialist Farming / Tissue Culture 	Rice, Khud, Kura, Lakri, Oil, Khail, Etc.
<ul style="list-style-type: none"> ➤ Light Engineering and Metal Working 	Door and window grille, door and window frame, collapsible gate, iron and steel furniture, Motor Parts, Engine Repair, Pump, Machine Tools, Agricultural Equipment, Automobile Body Building, Repairing and Coloring, Ship Breaking, Etc.
<ul style="list-style-type: none"> ➤ Knitwear and Readymade Garments 	Pants, Jacket, Ladies' three pieces set, Towels / Gamchas, Shirt, Tape / Nima, Frocks, Baby Set, Suit, Cloth / Than, Pluspain Base, Etc.
<ul style="list-style-type: none"> ➤ Designer, Aesthetically-Challenging, Personal Wear and Effects 	Gold and Silver Ornaments, Hair Spa, Hair Protein, Party Makeup, Eye-brow Pluck, Etc.
<ul style="list-style-type: none"> ➤ Leather Making and Leather Goods 	Gents Shoe, Ladies Shoe, Baby Shoe, Sandal Shoe, Slippers, Money Bag, Belt, Etc.

➤ Handloom and Specialized Textile	Blouse, Shari, Scarf, Orna, Farnet, Panjabi, Cushion Cover, Bed Sheet, Pillow Case, Etc.
➤ Handicraft & Miscellaneous Sector	Chatai, Chaluni, Dhol, Tobola, Cage, Kula, Candle Stand, Cup-Plate, Bamboo Goods, Bed, Table, Desk, Sofa Set, Chairs, Ruler Set, Etc.
➤ Healthcare and Diagnostics	X-Ray, Ultra-sonogram, ECG, ETT, ECHO, Different Pathological Test, CT_Scan, Etc.
➤ Electronics and Electrical	Electrical Board, Switch, Socket, Holder, Cut-out, Anti Cut-out, Coil, Battery, TV, Electric Wire, Etc.
➤ Plastic and Other Synthetic	Mug, Bowls, Bucket, Bodna and Many Other Home Appliances, Plastic Good Production Molds Etc.
➤ Educational Services	Educational Services / Counseling, Etc.

Branch / Area-Based Cluster Finance:

Initially, we have selected the following clusters near our branch and sales network over the Bangladesh:

Dhaka

- Educational Services
- Electronics and Electrical
- Designer, Aesthetically-Challenging, Personal Wear and Effects
- Knitwear and Readymade Garments
- Leather Making and Leather Goods
- Light Engineering and Metal Working
- Plastic and Other Synthetic

Jashore

- Handicraft & Miscellaneous Sector
- Agro Processing / Agri Business / Plantation Agriculture /Specialist Farming / Tissue Culture
- Light Engineering and Metal Working

Gazipur

- Knitwear and Readymade Garments

Sylhet

- Designer, Aesthetically-Challenging, Personal Wear and Effects
- Handicraft & Miscellaneous Sector
- Light Engineering and Metal Working
- Handloom and Specialized Textile

Chattogram

- Agro Processing / Agri Business / Plantation Agriculture /Specialist Farming / Tissue Culture
- Leather Making and Leather Goods
- Light Engineering and Metal Working

Risk Analysis & Mitigation

To minimize the risk of cluster financing CRM shall analyze the following risks-

1. **Business Risk:** CRM analyze business risk by assessing Age of business, Size of business, Nature of business, Products of business etc.
2. **Management Risk:** CRM analyze management risk by assessing the experience of the management of the business, distribution channel, inventory management, buyer or supplier management etc.
3. **Succession Risk:** CRM analyze Succession Risk through ensuring the existence or non-existence of the business successor, who can continue the business in absence of the proprietor or owner of the business.
4. **Bank Transaction Analysis:** It is transaction of the business through bank account, which reflects the true picture of the sales of a business. Sometime all the sales of a business are not reflected in bank a/c transaction due to cash sales.
5. **CIB Report Checking:** By checking of CIB Report, we analyze the applicants existing credit exposure as well as the repayment behavior of the applicant.
6. **Repayment Capacity:** CRM analyze the repayment capacity of the applicant for the proposed credit facility.
7. **Forecast the impact of proposed credit facility in business:** CRM forecasts the impact of proposed credit facility in the business such as sales growth, increase in operating profit and impact on applicant's repayment capacity.

8. **Financial Spreadsheet Analysis:** In Financial Spreadsheet Analysis, we analyze Balance Sheet, Income Statement, Cash Flow statement etc.
9. **Financial Risk:** This is the major risk of credit. We analyze financial risk through ratio analysis. Before understanding financial risk, we have to understand ratio analysis. There are different types of ratios to find out financial risk of a business.
10. **Working Capital Calculation:** CRM analyze the WC requirement of the business. WC means the fund required to run day to day operation of the business.
11. **Financial Security Risk:** Quality and quantity of financial security against the proposed credit facility such as hypothecation, group guarantee, personal guarantee etc.
12. **Structural Risk:** How the business is structured from every aspect in its operation.
13. **Market Competition Risk:** Risk associated with the competitors in the market who are providing same type of products.
14. **Operational Risk:** operational risks of a business which are inherent in the operation of the business.
15. **Business Net Worth:** Size of Net Worth of the business shows the strength of the business.
16. **Personal Net Worth:** Size of personal Net Worth shows the strength of the proprietor or owner or directors of the business to meet the emergency fund requirement in the business or to meet the debt obligation (in case of failure of if the business).
17. **Environmental Risk:** Is there any Environmental risk from the business operation, such as RMG dyeing industry uses chemical to dye cloth, which causes water and air pollution.
18. **Reputational Risk:** It analyzes the reputation of the business in the market.
19. **Technological Risk:** We analyze Technological Risk in the Business those are directly involved with the technology.
20. **Compliance Risk:** It analyzes the applicant's comply ability with required compliances.
21. **Checklist:** CRM introduce a Checklist through which it ensures the proper documentation required to provide credit facility.

After taking in to consideration all of the above-mentioned risk and as per approved PPG and credit policy CRM will recommend credit facility favoring the client.

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Recommendation:

Initiatives in implementing the following recommendations would be a rational approach in this matter:

- a. The expansion and development of the identified clusters would require a pragmatic approach such as a separate policy for the enterprises within the clusters. It is absolutely necessary to understand the particular environment these CMSMEs are operating in and furnish tailored policies that would enable them to cope with the adversities and opportunities alike.
- b. Concerned authorities and the entrepreneurs may be encouraged to take part in the association of enterprises within the clusters in order to improve the capacity building of the designated clusters and enterprises as well.
- c. One of the most important pre-requisites for the clusters to flourish and even to survive is to have adequate number of skilled workers. CMSMEs within important booster sectors are operating with workers who have a gap of knowledge on latest development in the field. Such gaps are to be reduced through serious initiatives by the government and private sectors. Needs assessment study should be carried to identify areas of skill development. Thus, training and orientation of all appropriate categories should be encouraged and sponsored upon conducting a training needs assessment.
- d. Establishing common facilities within one roof accessible by the enterprises may be recommended to ensure cost competitive services.
- e. Access to finance is a very important. Innovative means of financing should be arranged for CMSMEs in order to ensure continued and uninterrupted operations. For example, factoring, venture capital finance, collateral free financing, credit guarantee scheme, equity and entrepreneurship financing, movable property-based financing, etc. should be encouraged for micro and small enterprises. SME Foundation should extend possible support in promoting these finances for CMSMEs in better terms and conditions.

Conclusion:

Cluster-based economic development is a comprehensive approach to directing government policies towards creating the foundations for growth and prosperity. Modern cluster-based financing includes a number of specific policy instruments, in particular the use of cluster initiatives, but takes a much broader perspective on how to design and implement ongoing policies in fields such as innovation, internationalization, CMSME support, workforce development, and attracting investment. A number of characteristics are particularly important:

First, the objective of economic development policies needs to be increasing competitiveness, where competitiveness is understood as the qualities of a location that enable firms to succeed in national and global markets while supporting a high standard of living for local communities.

Second, each location has its unique set of economic opportunities and challenges. Policies need to be aligned with these local conditions, and they need to be delivered in ways that are consistent with the realities of the location. Learning from others is possible in terms of inspiration and at a narrow technical level.