

UCB CMSME CLUSTER FINANCING GUIDELINES



UNITED COMMERCIAL BANK LTD

SME Banking Division

Background of the Guidelines

Bangladesh Bank (BB) has recently issued a comprehensive circular on Cluster Financing in alignment with SMESPD Master Circular of 2019. As part of our on-going organizational alignment and to bring more focus on SME business, we want to enrich our portfolio by inclusion of different bankable clusters in our book.

This Cluster Financing Guidelines have been developed for compliance of Bangladesh Bank directives as mentioned in their SMESPD Circular 05 dated August 14, 2022 regarding cluster financing. Any upcoming circulars to be issued by Bangladesh Bank will be meticulously followed and will supersede any clause/ terms.

This guideline will expedite the achievement of cluster financing target set by Bangladesh Bank by way of proper identification of different clusters as per National Industrial Policy, SMESPD Circular of Bangladesh Bank, recommendations of SME Foundation etc.

The Guidelines will work as standard for all operations including identification and definition of a cluster, loan approval, disbursement, refinance claim (if any) submission, reporting & repayment etc. and any further instructions of Bangladesh Bank from time to time to be meticulously followed.

Key Points of the Cluster Financing

No.	Particulars	Description
1.	Name of the Guideline	UCB CMSME Cluster Financing Guidelines
2.	Purpose of the guideline	To define and identify different clusters as per Bangladesh Bank guidelines and circulars. All updated circulars of Bangladesh Bank including SMESPD Circular no. -05 dated 14.08.2022 will be taken into consideration to ensure the achievement of cluster financing target set by Bangladesh Bank.
3.	Definition of Cluster	<ul style="list-style-type: none"> ✓ Similar type of manufacturing or service concern located in specific geographical boundary within the radius of maximum 05 (Five) Kilometres. ✓ Number of such business in the particular area will be at least 50 (Fifty). ✓ Business strength, weakness, opportunities and threats of all these business concerns within a cluster should be analogous. ✓ Definition of Cluster will be followed as updated in National Industrial Policy.
4.	Cluster Identification	<p>Following lists will be considered for financing under clusters:</p> <ul style="list-style-type: none"> ✓ List of clusters as mentioned in Bangladesh Bank SMESPD Circular no 05 dated 14.08.2022 ✓ List of clusters as mentioned in CMSME Master circular of Bangladesh Bank ✓ List of clusters provided by SME foundation ✓ List of clusters as mentioned in National Industrial Policy ✓ Any other clusters newly identified by Bank or any other renowned organization.
5.	Cluster financing target	<ul style="list-style-type: none"> • 10% of total CMSME loan portfolio within 2022 • 1% increase each year and 12% by 2024.
6.	Cluster selection	<ul style="list-style-type: none"> • Until Further instructions by BB, Minimum 50% cluster financing of annual target of banks will be in favour of customers identified in paragraph 2 kha of Bangladesh Bank SMESPD Circular no. 05 dated 14.08.2022 and rest 50% of the annual target may be in favour of other clusters.
7.	Cluster Financing Policy	<ul style="list-style-type: none"> • Cluster Financing Policy needs to be developed and circulated in UCB website and SME & Special Programs Department of Bangladesh Bank after necessary approval from Board of Directors of UCB.
8.	Eligibility of Customer to be identified as cluster	<ul style="list-style-type: none"> • Customer must be from CMSME segment. • Must be manufacturer or service concern. • Verification whether the client is under particular cluster. • Membership certificate required if there is any association of the cluster. • Clean CIB report required.

		<ul style="list-style-type: none"> • Client trained for minimum one month from any Government or renowned Private organization will get preference. • Women Entrepreneur and Special Need Entrepreneur will get preference
9.	Loan Limit	<ul style="list-style-type: none"> ✓ As per SMESPD Master Circular no. 02 dated 05/09/2019. ✓ Only service and manufacturing concerns will be treated under clusters. ✓ Client may take loan from several bank but his/her total loan amount must not exit the highest ceiling.
10.	Interest rate and other charges	<ul style="list-style-type: none"> ✓ As per Banks Policy and schedule of charges. ✓ If loans are eligible under any BB refinance scheme than interest rate will be as per the scheme.
11.	Loan tenure	<ul style="list-style-type: none"> • Maximum 05 years including maximum 6-months grace period for term loan. • Installment frequency of loan repayment for customer can be quarterly or half yearly in addition to EMI. • For working capital facilities tenor will be as per respective PPG, or guidelines etc.
12.	Collateral	<ul style="list-style-type: none"> • Collateral arrangement will be as per UCB CRM Policy and Parameters of UCB SME Loan Products in addition to Bangladesh Bank prudential guidelines for CMSME sectors. • Personal Guarantee, Society/Group Guarantee will be accepted as collateral. • Credit Guarantee Scheme of BB is also applicable.
13.	Loan Approval	<ul style="list-style-type: none"> ✓ As per banks usual credit approval policy. ✓ Nature of cluster to be identified ✓ Clients cluster membership must be verified.
14.	Reporting and Monitoring	<ul style="list-style-type: none"> • Banks will mention the cluster financing information separately in financial statements including Statement of Affairs both at Head Office and Branch Level. • Bank will report the status of loan disbursed under cluster finance to Bangladesh Bank within the 15th day of following quarter. • New field to be created as ‘Cluster financing’ for the loans to be disbursed under cluster to identify them separately in Core Banking Software. • To ensure fund utilization under cluster financing banks will develop certain working plan and monitoring system. • Banks will arrange awareness building program in different regions to demonstrate the importance of cluster financing in socio-economic development of the country.
15.	Other conditions	<ul style="list-style-type: none"> • In case of failure of recovery from customer, bank will classify the loan as per existing policy of Bangladesh Bank.

		<ul style="list-style-type: none"> • Other issues like receive of application, processing time, disbursement, fund utilization, monitoring, recovery will be governed by existing policy of UCB and Guidelines of Bangladesh Bank. • Loans under cluster financing should be prioritized under the refinance schemes of BB. • For any other issues regarding cluster financing, BB Master circular no. 02 of 2019 and UCB CMSME Policy to be followed. • All upcoming circulars of Bangladesh Bank and internal circulars of UCB will be followed accordingly.
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Loan approval and disbursement process

Approval of loan proposal and disbursement of loan will be done as per guidelines and updated Credit Risk Management Policy of UCB.

Refinancing Programs for customers identified under different clusters.

Customers under different clusters will get priority for availing loans under different refinancing schemes and credit guarantee schemes. Existing dedicated Business Operation Process Manual will be followed for ensuring operation of refinance fund under cluster financing.

Capacity Building Programs

SME Banking Division will take necessary measures for arranging capacity building programs for both customers and bank officials as per paragraph 11 Gha of Bangladesh Bank SMESPD Circular 05 dated 14.08.2022 which will help to create awareness about the socio economic importance of cluster financing and achievement of cluster financing target set by Bangladesh Bank.

Review and Amendment

The review of any policy is an ongoing process. This policy may be amended from time to time as and when necessary to accommodate the changes in the market condition, cyclic aspect of the economy, government policy, industry demand, central bank's regulations, guidelines and experience of the Bank in financing different clusters. Any review/amendment will be approved by the MD & CEO.

Approval Condition

If any content of this policy conflict with laws, regulations of the country and/or Bangladesh Bank circulars, guidelines, the latter one shall prevail.