

# **UCB START-UP FUND GUIDELINES**



**UNITED COMMERCIAL BANK LTD**

SME Banking Division

## **Background of the Guidelines**

Bangladesh Bank (BB) has formed a revolving refinance scheme named “*Start-up Fund amounting BDT500 (Five Hundred) crore by Bangladesh Bank*” vide SMESPD Circular No. 04; dated March 29, 2021, from its own source to provide the said refinance facility for completely new and creative initiatives through participating banks as per approved manner directed by SMESPD, BB to support Start-ups

As part of our on-going organizational alignment and to bring more focus on business, we have signed an agreement with Bangladesh Bank for availing refinance fund from them. As per SMESPD Circular No. 04 dated March 29, 2021 of Bangladesh Bank, participating banks must build their own Start-up Fund for approval and disbursement of loan to customers under this scheme.

Initially, up to December 2021, banks will disburse loan from both Bangladesh Bank fund and own start up fund. From January 2022, banks will disburse loan to customers from their own fund and subsequently will claim refinance from Bangladesh Bank. Banks must have their own **Start-up Fund Guidelines** incorporating the Bangladesh Bank’s circulars which must be approved by the Board of Directors of the Bank.

As per requirement of Bangladesh Bank, UCB has already built own start up fund equivalent to 1% of Net Profit of 2020 which has been reported in Balance sheet under title **Start Up Fund**. Such fund building will continue for total 5 (five) years for providing credit facilities to start-ups.

This Start up Fund Guidelines has been developed for compliance of Bangladesh Bank directives as mentioned in their all existing SMESPD circulars regarding BDT500 (Five Hundred) crore Refinance Scheme for Start-ups. Any upcoming circulars to be issued by Bangladesh Bank will be meticulously followed and will supersede any clause/ terms.

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

## Key features of Start-up Fund

No.	Particulars	Description
1.	Name of the Scheme and Size of Fund	Start-up Fund amounting BDT500.00 (Five Hundred) crore by Bangladesh Bank. Fund is revolving in nature and tenure of the fund is 5 (five) years.
2.	Loan type & purpose	Long term facilities for max. 05 years. The purpose of the facility is to support the start-up business concerns.
3.	Maximum Loan Limit	Tk.1.00 Crore [Taka One Crore]; to be disbursed in 3 phases (at least)
4.	Target segment and Eligibility of the client	<ul style="list-style-type: none"> <li>• Innovation and development of new product/service/process/technology for commercial purpose. The new entrepreneurship must be scalable, economically viable having a potential for employment creation and increase of internal resource of the country.</li> <li>• The new entrepreneur must have necessary training from government or eligible non-government entrepreneur development organization regarding entrepreneurship, business operation, marketing. Entrepreneur not having formal technical education must be competent and experienced enough to run a new venture with necessary practical knowledge and involvement.</li> <li>• Certificate of successful completion of training courses on Entrepreneur Development.</li> <li>• Age limit between 21 years to 45 years</li> <li>• Full time engagement of the customer in the proposed project to be ensured.</li> <li>• Customers having adverse CIB report will not be eligible for credit facility.</li> <li>• A customer is not allowed to borrow fund under this scheme for more than one time or from more than one bank.</li> </ul>
5.	Collateral/support and Personal Guarantee	<ul style="list-style-type: none"> <li>• Certificates of the customer regarding technical know-how or academic achievement may be accepted as collateral.</li> <li>• Security/ Collateral and support security will be applicable as per UCB policy based on Credit Policy and PPG</li> <li>• However, any guidelines from Bangladesh Bank will be followed.</li> </ul>
6.	Eligibility of participating Bank	<ul style="list-style-type: none"> <li>• A participatory agreement to be signed between Bangladesh Bank and interested participating financial institution for obtaining fund under this refinance scheme.</li> <li>• Percentage of Classified Loan: Max. 10%</li> </ul>

		<ul style="list-style-type: none"> <li>• Capital Adequacy, Cash Reserve Ratio (CRR), Statutory Liquidity Ratio (SLR) to be maintained within the declared rate of BB.</li> <li>• Compliance with the guidelines related to single borrower exposure limit.</li> <li>• Ensuring proper risk management measure &amp; compliance with anti-money laundering related guidelines.</li> </ul>
7.	Repayment of fund by UCB to Bangladesh Bank	<ul style="list-style-type: none"> <li>• Quarterly or half yearly instalment after completion of grace period (if any)</li> <li>• Recovery of loan from customer is the sole responsibility of the bank</li> </ul>
8.	Bank's Own Start up fund	<p>Participating Bank has to compulsorily build up its own start-up fund equivalent to 1% of Net Profit as per audited financials starting from 2021 for next 5 years.</p> <p>Such fund build-up will start from the audited financials of 2020. To build up the fund, a separate GL account to be created; and UCB Board of Directors' approved Policy will be required to build the fund. Bank will create a new GL/Account with the title Start-up Fund' and will report it in Balance Sheet.</p> <p>Up to December 2021, bank will provide credit facility to customer under this scheme from both bank's own start-up fund and from Bangladesh Bank fund.</p> <p>From 2022, bank will initially disburse loan to borrower from start-up fund and then will claim refinance from Bangladesh Bank.</p>
9.	Loan tenure	<p>Max. 05 years including max. 1-year grace period</p> <p>Installment frequency of loan repayment for customer can be quarterly or half yearly in addition to EMI.</p>
10.	Rate of interest	<ul style="list-style-type: none"> <li>• Bank will charge the client @4% rate of interest [<b>Simple rate</b>].</li> <li>• Bank will repay the refinanced loan amount to Bangladesh Bank @0.50% rate of interest.</li> <li>• Spread for the bank will be (4.00% - 0.50%)= 3.50% p.a.</li> <li>• Bangladesh Bank will charge UCB additional 2% interest, if the fund is not utilized properly</li> </ul>

11.	Refinance Claim	<p>Bank will apply monthly to General Manager, SMESPD of Bangladesh Bank for refinance with the following documents:</p> <ul style="list-style-type: none"> <li>• Actual Disbursement Certificate</li> <li>• Loan disbursement particulars (prescribed format of BB)</li> <li>• DP Note and Letter of Continuity</li> <li>• Other related documents and information</li> </ul> <p>2% penalty (additional) will be charged if the loan fund is not utilized properly.</p>
12.	Loan assessment	<ul style="list-style-type: none"> <li>• Loan assessment will be done as per Bank's own credit policy and PPGs maintaining above parameters.</li> <li>• While assessing the proposal bank will identify new customers/projects which are highly potential, medium potential or low potential.</li> <li>• Bank must not disclose the start-up idea of the customer whether the loan is approved or declined.</li> </ul>
13.	Reporting and monitoring	<ul style="list-style-type: none"> <li>• Bank will report the status of fund to Bangladesh Bank on every six months (June and December) as per prescribed format and submit a balance confirmation certificate.</li> <li>• For ensuring proper utilization of the fund by the customer, bank will have own action plan and monitoring cell.</li> <li>• New field to be created as 'Start-up' for the loans to be disbursed under Start up Refinance Scheme to identify them separately in Core Banking Software.</li> </ul>
14.	Other conditions	<ul style="list-style-type: none"> <li>• In case of failure of recovery from customer, bank will classify the loan as per existing policy of Bangladesh Bank. Provisioning requirement of such loan will be 5% for Sub-standard loan, 20% for doubt full loan and 30% for bad and loss.</li> <li>• Other issues like receive of application, processing time, disbursement, fund utilization, monitoring, recovery will be governed by existing policy.</li> <li>• At least 10% of the fund to be disbursed in favour to the women entrepreneur.</li> </ul>
15.	Eligible existing products of UCB	UCB Onkur/ UCB Durjoy/ SME Term Loan/ UCB Dipti etc. and/or as decided by SME Business Division.

## **Loan approval and disbursement process**

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

## **Refinance Claim Submission and Fund Allocation Process**

Existing Business Operations Process Manual (BOPM) developed by SME Business Division in 2018 for all Bangladesh Bank Refinance Scheme will be followed for all activities regarding BDT 500 (Five Hundred) crore Refinance Scheme for Start-ups.

## **Development of separate Business Operation Process Manual**

A dedicated Business Operation Process Manual regarding creation and utilization of start-up fund as per SMESPD Circulars of Bangladesh Bank with the support of all concerned divisions including SME Business, SME CRM, FAD, IT, Asset Ops, Treasury, CAD etc. to be developed within October 2021.

## **Capacity Building Programs**

SME Business Division will take necessary measures for arranging capacity building programs for successful implementation of the Start-up Fund Scheme. Such capacity building will include arranging knowledge sharing sessions in different methods with Head Office and branch officials along with other relevant stakeholders for dissemination of relevant key concepts of the scheme which will help to book new customers, timely submission of refinance claim to BB and ensuring proper reporting and record keeping.

## **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 managing start-up fund. Any review/amendment will be approved by the MD & CEO.

## **Approval Condition**

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