

**CONTROLS OVER FINANCE EXTENDED TO INDIVIDUALS,
SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs) AND
THE ECONOMIC ENTITIES NEGATIVELY-AFFECTED BY
COVID-19**

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Chapter (1): Definitions

1) Banks:

Kuwaiti banks registered with the Central Bank of Kuwait.

2) SMEs Fund:

The National Fund for Small and Medium Enterprise Development.

3) Small and Medium-sized Enterprises (SMEs):

The economic entities covered under the definition stated in the Law No. 98 of 2013 regarding the Establishment of the national Fund for Small and Medium Enterprise Development, amended by the Law No. 14 of 2018 and its Executive Bylaw and its amendments, which are operating in value-added activities of the national economy as per the SMEs Fund's Articles.

The Law defines the **Small Enterprise** as "the enterprise that employs up to 50 workers, and its assets and income do not exceed KD 250,000 and KD 750,000 respectively. The enterprise must be independent, i.e. not a subsidiary to another legal entity; otherwise the definition shall consider the total assets, income and number of workers of such enterprises".

Likewise, the Law defines the **Medium Enterprise** as "the enterprise that employs between 51 to 150 workers, and its assets and income do not exceed KD 500,000 and KD 1,500,000 respectively. The enterprise must be independent, i.e. not a subsidiary to another legal entity; otherwise the definition shall consider the total assets, income and number of workers of such enterprises".

4) Negatively-affected Clients:

The individuals, small and medium-sized enterprises, corporates and economic entities of the domestic private sector that were efficiently operating with an added value to the national economy and have the abilities to create job opportunities for the nationals, and whose activity was partially or wholly affected by the COVID-19 crisis, giving rise to the inability to cover periodic contractual expenditures.

5) Finance:

The concessional loan/finance provided to the negatively-affected client in accordance with these controls in order to enable the fulfillment of the contractual obligations.

6) Maximum Limit of Finance:

The maximum limit of finance provided to the negatively-affected client is the amount of deficit in the net cash flows needed until the end of December 2020. This deficit should be calculated by the bank as per a comprehensive study of the negatively-affected client's financial position. The bank should review the deficit amount in June and in September of 2020.

7) Uses of Finance:

Finance shall be allocated to cover the periodic contractual expenditures (e.g. payroll, rentals and any payment for previously unmet or outstanding obligations) and not to repay installments of credit facilities extended by banks and other lenders.

8) Deficit in Cash Flows:

The difference between the negatively-affected client's cash inflows, ~~that are~~ due from various income sources related to its business activities, and the cash outflows in the form of essential and periodic contractual expenditures, which are to be covered in-line with the uses of finance mentioned under Item 7 of this Chapter.

9) Repayment:

The negatively-affected client shall be granted a grace period of one year starting from the date of providing finance. Repayment term shall be 2 to 3 years including the grace period. The bank sets the repayment term based on the projected cash flows, provided that the payments are made on a quarterly basis and include the principal and interest/profit.

Chapter (2): Terms and Conditions of Providing Finance

- 1) Any delinquent client as of 31.12.2019, where delinquency continued until the application date is not be eligible to this finance. Delinquency is assessed as per the provisions of the Central Bank of Kuwait's Instructions regarding Classification of Credit Facilities, the Executive Bylaw of the Law No. 14 of 2018 regarding the Establishment of the National Fund for Small and Medium Enterprise Development, and the regulations of the small-sized enterprise portfolio of the Industrial Bank of Kuwait.
- 2) The bank determines the amount of finance based on the findings of the study of client's credit position, and the estimate of the needs to cover the deficit in cash flows against the periodic and contractual obligations.
- 3) The bank extends the finance in tranches, disseminated concurrently with the periodic obligations requested to cover actual realized cash flows of the negatively-affected client. In addition, the deficit amount should be reassessed in June and in September of 2020 taking into consideration the actual realized cash flows of the negatively-affected client.
- 4) Both the bank and the client shall disburse the finance for the uses stated under Item 7 of Chapter (1). The lending banks should take all actions and measures necessary to follow up the finance disbursement and uses of finance by the negatively-affected clients. The lending bank should coordinate with other banks to transfer the due payments (e.g. client's payroll, rents and the other contractual cash flows) from the finance granted to the client and deposit the same directly into the beneficiaries' bank accounts. Finance must not be paid in cash to the client.
- 5) The SMEs Fund shall not collect from the small and medium-sized enterprises any commission, charge or profit in return for the granted finance.
- 6) Banks shall be entrusted with the responsibility of managing the loan, and assumes the entirety of credit risks associated with the finance extended by them. In consideration thereof, banks shall receive only the interest/profit stated under Chapter (5) hereof, and shall not collect any other commission nor impose any other charge.

Chapter (3): Mechanism for Extending Finance to SMEs

Kuwaiti banks are to cooperate with the SMEs Fund to extend finance to this category of clients out of their extensive banking experience, qualified staff and the capabilities to conduct credit assessment studies with high efficiency, as well as their wide reaching outlets to receive applications and complete such studies as quickly as needed. Given that, as per the law establishing SMEs Fund, it can only cover 80% of the finance needed for SMEs, banks, therefore, are to provide the remaining financing and simultaneously assume the responsibility and accountability for managing the loan, and all credit risks associated with their share. Furthermore, banks maintain clients' accounts, making it easier to monitor the spending of finance towards the stipulated uses and, therefore ensuring the wide-reaching positive impact of finance.

The following presents client segments meeting the definition of "SMEs" who own an economic project that was running efficiently prior to, and whose cash flows had been affected due to, the current crisis.

First: Existing Banks' and SMEs Fund's clients, and projects that have not received prior financing from any source:

These are clients who had previously received financing from banks, from the SMEs Fund, or from both, as well as clients who had not received finance from any source, and their applications are assessed in view of the following:

- 1) The negatively-affected client submits the finance application to their main account's bank via an electronic portal designated for this purpose, the bank coordinates with the SMEs Fund on assessing the application.
- 2) The bank conducts the required credit assessment in a comprehensive and swift manner, which at least covers the following: ensuring that the client satisfies the terms and conditions set for extending the finance, reviewing and verifying the client's previous cash flows, and inquiring on the client through the Credit Information Network (Ci-Net).
- 3) Guided by the findings of the credit assessment, the bank takes the appropriate decision and specifies the amount of finance needed.
- 4) Finance is extended jointly by the SMEs Fund and the bank at 80% and 20% respectively, through a tripartite contract.
- 5) The SMEs Fund shall pay its share of finance to the lending bank within 2 days of receiving the bank's notification.

- 6) If the applicant reaches the maximum allowed by the SMEs Fund financing, set for a single client (KD 400,000), the bank may provide the finance in full.

Second: Clients of the SMEs Portfolio managed by the Industrial Bank of Kuwait:

- 1) The negatively-affected client applies to the Industrial Bank of Kuwait for finance.
- 2) The Industrial Bank of Kuwait conducts the required credit assessment review in a comprehensive and swift manner, which at least covers the following: ensuring that the client satisfies the terms and conditions set for extending finance, reviewing and verifying the client's previous cash flows, and inquiring on the client through the Credit Information Network (Ci-Net).
- 3) Guided by the findings of the credit assessment, the Industrial Bank of Kuwait takes the appropriate decision and specifies the amount of finance needed.

Chapter (4): Mechanism for Providing Finance to Individuals, Companies and Other Clients

In light of the importance of preserving entities that add value to the national economy, which are facing liquidity shortages due to the current crisis, banks can provide the required liquidity in the form of concessional finance to negatively-affected clients (individuals or companies). This prevents a temporary liquidity problem from turning into a long lasting solvency issue. Such financing can help them overcome the crisis and retain their national employees. Banks, thus, play a critical part in supporting and maintaining economic activity amid the current conditions. The banks shall simultaneously assume accountability for managing the granted loans and for all credit risks associated with it.

Individuals, companies and other clients under this chapter are defined as: “all clients to whom the definition of an SME does not apply. Whether those with existing finance provided by a bank or those who had never obtained such finance, and who own an economic project that was running efficiently prior to, and whose cash flows had been affected due to, the current crisis.” These clients’ applications for finance are assessed in view of the following:

- 1) The negatively-affected client applies for finance from one of their crediting banks through an electronic portal designated for this purpose. The application must include all the data and documents the bank deems required. If the client does not have existing bank credit, the client may submit the application to the bank of their main account that shows records of historical cash flows.
- 2) The bank conducts the required credit assessment in a comprehensive and swift manner, which at least covers the following: ensuring that the client satisfies the conditions set for extending finance, reviewing and verifying the client’s previous cashflows, and inquiring on the client through the Credit Information Network (Ci-Net).
- 3) Guided by the findings of the credit assessment, the bank takes the appropriate decision and specifies the amount of finance needed.

Chapter (5): Cost of Extending Finance

Finance is extended at a fixed interest rate (conventional banks) or profit rate (Islamic banks) for the whole financing period at a maximum of 2.5% annually. The cost of finance during the payment period is divided as follows:

1) First year of extending finance (Grace Period):

The State's General Budget bears the accrued interest and profit on the finance extended to the negatively-affected clients during this period.

2) Second year of extending finance:

- a) SMEs: The State's General Budget bears the accrued interest and profit on finance extended to the negatively-affected clients under this category.
- b) Individuals, companies, and other clients: The State's General Budget bears half of the accrued interest and profit on finance extended to the negatively-affected clients under this category.

3) Third year of extending finance:

- a) SMEs: The State's General Budget bears half of the accrued interest and profit on finance extended to the negatively-affected clients under this category.
- b) Individuals, companies, and other clients: The negatively-affected client under this category bears the entire interest and profit on the extended finance.

After the lapse of the grace period, if the client fails to make two consecutive payments, the payment terms shall be made void and the payment of the entire finance shall fall due. The client shall, in this case, repay the finance sum as well as all interests/profits thereon from the date of delinquency till full repayment, and the State's General Budget no longer covers any portion of the cost of finance.

The two tables below summarize the cost of finance according to client category:

	Small and Medium-sized Enterprises (SMEs)			
	Banks' and SMEs Fund's Clients			Industrial Bank of Kuwait's Clients
	SMEs Fund (80% of finance sum)	Banks (20% of finance sum)	Weighted average of finance cost	
First Year (Grace Period)	No interest/profit	2.5% fully borne by the State's General Budget	0.5% fully borne by the State's General Budget	2.5% fully borne by the State's General Budget
Second Year	No interest/profit	2.5% fully borne by the State's General Budget	0.5% fully borne by the State's General Budget	2.5% fully borne by the State's General Budget
Third Year	No interest/profit	2.5% equally borne by the State's General Budget and the client	0.5% equally borne by the State's General Budget and the client	2.5% equally borne by the State's General Budget and the client

Finance Extended by Banks to Individuals, Companies, and Other Clients	
First Year (Grace Period)	2.5% fully borne by the State's General Budget
Second Year	2.5% equally borne by the State's General Budget and the client
Third Year	2.5% fully borne by the client

Chapter (6): General Provisions

- 1) The clients shall retain their national workforce existing as of 31.12.2019 and achieve the national employment ratio designated to the relevant sector/activity by 31.12.2021. In case of failure to do so, the finance provided as per these conditions shall fall due and the client must repay the finance sum plus the interest/profit thereon from the date of failure till full repayment, and the State's General Budget shall no longer bear any portion of the finance cost.
- 2) The companies and other entities eligible under Chapter (4) shall not make any cash distribution/dividend nor draw any amount from the partners' account till the full repayment of finance. In case of non-compliance, the finance provided as per these conditions shall fall due and the client must repay the finance sum plus the interest/profit thereon from the date of non-compliance till full repayment, and the State's General Budget shall no longer bear any portion of the finance cost.
- 3) The client must acknowledge criminal and civil liability if any of the required data or documentation is found incorrect, and this shall be considered forgery of papers of banks as per the provision of Article (259) of the Penal Code. In the latter case, the bank may cease or cancel all the unutilized amounts of finance. All the granted amounts shall become immediately and unconditionally due without adherence to the dates or terms stated under the finance contract. In addition, the bank shall have the right to recover such amounts with immediate effect and without an official warning or a court ruling. And the State's General Budget no longer covers any portion of the cost of finance.
- 4) Banks shall communicate and publish these controls and a list of the documents required to assess clients' applications for finance on their electronic platforms.
- 5) Banks shall create electronic portals designated for receipt of applications for finance.
- 6) The negatively-affected client shall submit the application for finance through the bank's electronic portal, providing all that is included in the list of documents required by the bank, as well as any other data the bank may require towards making a credit assessment.
- 7) Banks shall maintain a register indicating all applications for finance submitted by clients in order of their receipt, and all applications are to be assessed and decided upon swiftly.
- 8) For rejected applications, the bank shall notify the client of the reasons behind this decision.

- 9) The Credit Information Network Company (Ci-Net) coordinates with banks to create the required database for these clients along a system specified to suite the nature of this finance, indicating the date of the client's application and the party to which they submitted it.
- 10) Banks shall provide the Central Bank of Kuwait with statements on the rejected finance, reasons thereof and the finance extended as per these controls, within forms and reports and on dates specified by the Central Bank of Kuwait.
- 11) Banks shall provide the Central Bank of Kuwait, on a quarterly basis, the share of the finance cost borne by the State's General Budget (interests and profits) in accordance with Chapter (5), after review by the lending banks' auditors. After which, the Central Bank of Kuwait is to relay the same to the Ministry of Finance so that these amounts are paid to the concerned banks within 5 days.