

**REGULATIONS FOR FINANCE EXTENDED TO INDIVIDUALS,
SMALL AND MEDIUM ENTERPRISES (SMEs) AND BUSINESSES
NEGATIVELY-IMPACTED BY COVID-19**

N.B.: This English translation is prepared by the Central Bank of Kuwait for information purposes only. In case of any variance between Arabic and English versions, Arabic text shall prevail.

Preface

In compliance with the provisions of the Constitution of the State of Kuwait that encourage solidarity within society and promote human values, and in the light of the directives of H.H the Amir, the Government of the State of Kuwait has taken measures to protect its residents from the outbreak of COVID-19. While precautions are being implemented to strengthen the public health security in the country, strenuous efforts, on the other hand, are being exerted to reinforce economic and financial stability and protect livelihoods and subsistence.

With the aim of monitoring the economic and social impact of the exceptional measures taken in the face of the COVID-19 outbreak, the State of Kuwait led a proactive intervention approach to mitigate the effect of the crisis through preemptive solutions. As per the local and international experience, any delay in taking necessary actions and crucial solutions will inevitably increase the cost of addressing the crisis. Economic activity is a tightly connected chain, whereby any adversely affected unit transmits the impact to other units, with the resultant negative spill-overs extending to individuals' lives and consequently harm the country's business reputation. In such a case, the crisis would be more difficult and costly to resolve. Thus, and despite the present challenges, protecting on-going and productive economic activity is far more feasible than rebuilding it.

Towards that end, the Cabinet issued its Resolution No. 455 on 31.03.2020 introducing a stimulus package considering certain measures and priorities, most importantly safeguarding public funds and their prudent utilization, ensuring social protection of nationals, securing employment of Kuwaitis working in the private sector, and reinforcing social security.

The stimulus package aims to avoid the consequences and excessive costs of halting economic activity. This will be achieved through supporting vital sectors and value-added activities to the national economy for individuals, small and medium enterprises and corporates that were operating efficiently prior to the crisis, and have the ability to create job opportunities for Kuwaitis. To this end, and as per Clauses 6 and 7 of the stimulus package, Kuwaiti banks shall extend concessional loans/finance to those sectors to cover the deficit in their cash flows and to avoid turning a temporary liquidity problem into a long lasting solvency issue that threatens business continuity. By helping these sectors overcome the current situation, it will be easier to resume economic activity once the pandemic

dissipates, and for business to maintain their ability to provide the services and commodities without disruption.

And in order to regulate the deployment and utilization of the finance and to channel it to eligible businesses in a manner that ensures optimal transmission of the positive effect to other sectors (e.g. payroll, rental payments and fixed expenses, etc.), a set of regulations are laid down for banks to adhere to in providing the concessional finance. The Central Bank of Kuwait shall oversee the implementation of these guidelines to ensure compliance, and to monitor their impact to ensure the achievement of the planned and desired goals.

We detail below the regulations of the financing extended to individuals, small and medium enterprises (SMEs) and the businesses negatively-impacted by COVID-19.

Chapter (1): Definitions

1) Banks:

Kuwaiti banks registered with the Central Bank of Kuwait.

2) National Fund:

The National Fund for Small and Medium Enterprise Development.

3) Small and Medium Enterprises (SMEs):

The economic businesses 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 National 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 the overall group”.

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 the overall group”.

4) Negatively-impacted Clients:

The individuals, small and medium enterprises, corporates and economic entities from 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 impacted by the COVID-19 crisis, giving rise to the inability to cover the basic periodic contract expenditures.

5) Finance:

The concessional loan/finance provided to the negatively-impacted client in accordance with these regulations with the objective of enabling the fulfillment of the contractual obligations.

6) Maximum Limit of Finance:

The maximum limit of finance provided to the negatively-impacted 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-impacted 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-impacted client's cash inflows, 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-impacted 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 shall set 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 non-performing client as of 31.12.2019, where delinquency continued until the application date is not eligible to this finance. Non-performance is assessed as per the provisions of the Central Bank of Kuwait's Instructions regarding Classification of Credit Facilities, the Executive Bylaws 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 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 funds required to cover the deficit in cash flows resulting from 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-impacted client. Furthermore, the deficit amount should be reassessed in June and in September of 2020 taking into consideration the actual realized cash flows of the negatively-impacted client.
- 4) Both the bank and the customer 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-impacted clients. The lending bank should coordinate with other banks to transfer the due payments (e.g. customer's payroll, rents and the other periodic contractual expenditures) 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 National Fund shall not collect from the small and medium enterprises any commission, charge or profit in return for the granted finance.
- 6) Banks shall be entrusted with the responsibility of managing the finance, 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 Financing to SMEs

Kuwaiti banks are to cooperate with the National 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 urgently as needed. Given that, as per the National Fund's establishment Law, it can only cover 80% of the finance needed for SMEs, banks, therefore, are to provide the remaining finance and simultaneously assume the responsibility and accountability for managing the debts, and all credit risks associated with their share. Furthermore, banks shall maintain clients' accounts, making it easier to monitor the spending of finance towards the stipulated uses thus ensuring the wide-reaching positive impact of finance.

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

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

These are clients who had previously received finance from banks, or the National 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-impacted client submits the finance application to the bank which maintains its principle business account bank via an electronic portal designated for this purpose. The bank shall coordinate with the National 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 National Fund and the bank at 80% and 20% respectively, through a tripartite contract.

- 5) The National 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 limit allowed by the National Fund to finance a single customer (i.e. KD 400,000), the bank may provide the finance in full.

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

- 1) The negatively-impacted 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 customer 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 businesses 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-impacted clients (individuals or companies). This prevents a temporary liquidity problem from turning into a long-term solvency issue. Such finance 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 debts and for all associated credit risks.

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 impacted due to, the current crisis.” These clients’ applications for finance are assessed in view of the following:

- 1) The negatively-impacted client applies for finance from one of their lending banks through an electronic portal designated for this purpose. The application must include all the data and documents the bank deems to be required. If the client does not have existing bank facilities, the client may submit the application to the bank of their principle business 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 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.

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-impacted 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-impacted 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-impacted 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-impacted clients under this category.
- b) Individuals, companies, and other clients: The negatively-impacted 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 interest/profit 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 Enterprises (SMEs)			
	Banks' and National Fund's Clients			Industrial Bank of Kuwait's Clients
	National 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 as per 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 businesses 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 customer 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 to be incorrect, 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 regulations 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-impacted client shall submit the request for finance through the bank's electronic portal, providing all 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 to track 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 by setting up a system to suit 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 regulations, as per the forms and reports and on the 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.

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