

# Economic package towards SMEs and Individuals affected by Covid-19

## Summary

### **Small and Medium-sized Enterprises (SMEs):**

A Small Enterprise 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.

A Medium Enterprise employs somewhere between 51 to 150 workers, and its assets and income do not exceed KD 500,000 and KD 1,500,000 respectively.

### **Maximum Limit of Finance:**

The maximum limit of finance provided to the negatively-affected<sup>1</sup> 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.

### **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.

### **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.

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<sup>1</sup> 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

# Terms and Conditions of Providing Finance

- Any delinquent client as of 31.12.2019, where delinquency continued until the application date is not be eligible to this finance.
- 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.
- Both the bank and the client shall disburse the finance for the uses stated under Item 7 of Chapter (1). 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.
- The SMEs Fund shall not collect from the small and medium-sized enterprises any commission, charge or profit in return for the granted finance.
- 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.

## Mechanism for Extending Finance to SMEs

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. The funds would be provided to two types of clients

### Existing Banks' and SMEs Fund's clients,

- The clients can submit the finance application to their main account's bank, through a web portal. The bank coordinates with the SMEs Fund on assessing the application
- The bank will conduct a credit assessment 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).
- Finance is extended jointly by the SMEs Fund and the bank at 80% and 20% respectively, through a tripartite contract
- 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.

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

- The negatively-affected client applies to the Industrial Bank of Kuwait for finance.
- The Industrial Bank of Kuwait conducts the required credit assessment review 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).
- Guided by the findings of the credit assessment, the Industrial Bank of Kuwait takes the appropriate decision and specifies the amount of finance needed.

## Mechanism for Providing Finance to Individuals, Companies and Other Clients

- The negatively-affected client applies for finance from one of their crediting banks through an electronic portal designated for this purpose.
- 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).
- Guided by the findings of the credit assessment, the bank takes the appropriate decision and specifies the amount of finance needed.

## 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:

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

## General Provisions

- 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.
- 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.
- Banks shall communicate and publish these controls and a list of the documents required to assess clients' applications for finance on their electronic platforms.
- Banks shall create electronic portals designated for receipt of applications for finance.
- 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.
- 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.
- For rejected applications, the bank shall notify the client of the reasons behind this decision.
- 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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