



EDBS/KH/C/9/2021
7th March 2021

Chief Executive Officers

All Retail Banks
Manama
Kingdom of Bahrain

Dear Sir/Madam,

Consultation: Proposed Requirements on Financing to Small and Medium Sized Enterprises (SMEs)

As you are aware, SMEs¹ (as defined by Ministry of Industry, Commerce and Tourism (MOICT)) account for almost 30% of Bahrain's GDP and provide employment opportunities to nearly 75% of private sector workers. Keeping this in view, the Government of Bahrain has taken several initiatives including the establishment of SMEs Development Board (SDB) to coordinate the efforts of the MOICT, Economic Development Board (EDB), Tamkeen, Bahrain Development Bank (BDB) and the Bahrain Chamber of Commerce & Industry (BCCI). Tamkeen and BDB have provided several support services to SMEs which include financial support, training and advisory services. Other steps taken by the government include the 20% allocation for SMEs from the value of government procurements and tenders and the 10% preference granted to SMEs in the bidding of service facilities within government departments and government tenders.

Despite the important contributions made by SMEs to economic growth and employment, their access to finance is significantly restricted. Currently, SMEs account for only a small percentage of the financing portfolio of banks in Bahrain.

Considering the above, CBB is hereby proposing to require retail banks to:

1. Ensure by 31st December 2025 that financing to SMEs accounts for at least 20% of their domestic financing portfolio. This should be implemented in a phased manner and on an

¹ According to MOICT, SME is defined as follows:

- Small enterprises: Companies with the number of employees between 6 and 50, and/or annual turnover between BD 50,001 and BD 1 million.
- Medium enterprises: Companies with the number of employees between 51 and 100, and/or annual turnover between BD 1,000,001 and BD 3 million.

In other words, any company with 6-100 employees and/or annual revenue of BD 50,001 to BD 3 million comes under the definition of SME in Bahrain.

Companies having up to 5 employees and annual revenue of up to BD 50,000 are defined as Micro enterprises and not SMEs.

<https://www.moic.gov.bh/en/tiles/smes/pages/smes-definition.aspx>

incremental basis such that aggregate exposure to SMEs at (a 'solo' or 'branch' level) as a percentage of each licensee's portfolio reaches a minimum of:

- a. 2% by 31st December 2021,
 - b. 5% by 31st December 2022,
 - c. 10% by 31st December 2023,
 - d. 15% by 31st December 2024 and
 - e. 20% by 31st December 2025;
2. Create a separate department, or a separate unit within the credit department, which is dedicated to SME financing with appropriate position in the licensee's hierarchy and suitable resources allocated; and
 3. Amend the credit policies and procedures in order to implement the proposed new requirements.

CBB requires all licensees to provide their comments, including 'nil comments' on the proposed requirements.

Responses must be sent electronically to consultation@cbb.gov.bh by 1st April 2021.

Yours faithfully,



Khalid Hamad Al-Hamad

cc: Bahrain Association of Banks