



# Business Continuity Credit Facility

## Helping businesses weather the financial storm

### Context

#### Introduction

Many businesses in the Cook Islands are struggling to stay afloat because of loss of actual or expected revenue as a direct result of the COVID-19 pandemic closing our borders to international visitors.

In response, the Cook Islands Government is launching a suite of credit initiatives designed to assist individuals and businesses throughout the period from July 2020 to June 2021 by reducing the financial stress caused by the economic downturn, ensuring business continuity and fostering new business investment to drive economic growth. The initiatives are the Interest Relief Program, the Business Continuity Credit Facility (the subject of this fact sheet) and the Business Growth Loan Program.



The **Business Continuity Credit Facility (BCCF)** is a collaboration between the **Government** and the **Bank of the Cook Islands (BCI)**, with the Government approving and financing loans, and BCI responsible for the administration of loan disbursements and repayments.

The **BCCF** aims to provide fast access to cheap loans for daily cash-flow needs to enable businesses to weather the current economic storm and better position them to return to normal after the pandemic. Details on the other elements of the Government's credit response — the Interest Relief Program and the Business Growth Loan Program — will be available on the Ministry of Finance and Economic Management website: <http://www.mfem.gov.ck/economic-planning/erp-phase-ii>.

#### BCCF eligibility criteria and loan terms

Part 4 of the *COVID-19 (Economic Response) Act 2020* (the Act) provides for the Financial Secretary, on behalf of the Crown, to enter into loan contracts for the purposes of the **BCCF** and to engage the Bank of the Cook Islands under an agency agreement to administer the **BCCF**.

The Financial Secretary is required under section 27(1) of the Act, on or before the 14 July 2020, to publish on a website maintained by or on behalf of the Ministry of Finance and Economic Management (MFEM) to which the public has free access:



- (a) an explanation of how the **BCCF** works; and
- (b) the criteria for eligibility under the **BCCF** to receive a loan; and
- (c) the loan terms and conditions.

This fact sheet, together with the [Business Continuity Credit Facility Loan Terms and Conditions](http://www.mfem.gov.ck/economic-planning/erp-phase-ii#business-banking-initiatives), are published on the freely accessible MFEM website (<http://www.mfem.gov.ck/economic-planning/erp-phase-ii#business-banking-initiatives>) in accordance with the requirements of section 27(1)(a) to (c) of the Act.

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## Summary

The key features of the **BCCF** are:

- **benefit** — fast access, with no security collateral required, to a one-off low cost short-term business continuity loan from the Government for businesses negatively impacted by the COVID-19 pandemic.
- **eligible businesses** — those businesses that have received wage support in June 2020 and/or are receiving support in July 2020 under the COVID-19 Wage Subsidy or Training Subsidy measures can apply for a business continuity loan.
- **standard maximum loan size** — the standard maximum size of the loan you can get depends on the number of full-time-equivalent employees calculated from wage subsidy funding. The base amount is \$12,500 plus \$2,000 per full-time-equivalent employee, up to a maximum of \$312,500. A larger loan than the standard maximum may be considered in exceptional circumstances.
- **loan term** — 48 month (4 year) loan period with compulsory repayments after 24 months (the beginning of year 3).
- **interest rate** — the annual interest rate will be 3 per cent beginning from the date the loan is provided, reduced to 1 per cent if the loan is fully paid back within one year.
- **administration** — loan applications will be made through your employer Cook Islands National Superannuation Fund (CINSF) account. Following conditional approval by the Revenue Management Division (RMD), and you opening a loan account at BCI, you will be notified and then on behalf of the Government BCI will make the loan payment into your CINSF nominated bank account and administer your loan repayments.
- **timing** — applications will open on 10 July 2020 and close on 30 September 2020.

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## Objective

The **BCCF** will support access to low cost finance to allow businesses to weather the current economic storm with increased working capital for daily cash-flow needs.

The **BCCF** is designed to cover 'everyday' financing to assist businesses to meet costs such as payroll, rent, insurance and other ongoing needs. The one-off credit is available on a short-term basis, providing some cashflow support for businesses which have been hit hard by the downturn and are struggling to meet their fixed costs.

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## Eligibility criteria

Eligible businesses must:

- be active as of 1 March 2020 and be based in the Cook Islands;
- be **viable and ongoing**, and have a plan to ensure they remain viable and ongoing;
- if a company, **registered or re-registered** under the *Companies Act 2017* on the online Cook Islands Companies and Incorporated Societies Registry (**Companies Registry**) administered by the Ministry of Justice, or commit to doing so by 9 December 2020 (<https://registry.justice.gov.ck/Index.aspx>);
- have received a **June 2020 payment or approved to receive a July 2020 payment** under the COVID-19 Wage Subsidy or Training Subsidy schemes;
- be **up to date with business tax lodgements** with RMD or have made arrangements with RMD to bring them up to date.

### Seek your own financial advice

The Government and BCI cannot provide direct financial or general advice regarding loans issued under this facility. Each applicant is strongly advised to seek their own independent financial advice before applying for a BCCF loan.

The Financial Secretary's decision on loan applications is final.

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## What do we mean by viability?

To be eligible for the **BCCF** your business must be viable, and you must have a plan to ensure it remains viable. This generally means the directors or owners have good reason to believe it is more likely than not the business will be able to pay its debts as they fall due within the next 24 months. Your accountant may be able to provide this advice.

You must keep any evidence of your business's ongoing viability at the time of requesting the loan, as we may audit your application. Evidence might include, for example:

- a cash-flow forecast for your business for the short term;
- a plan for where revenue will come from in future market conditions, and a forecast of those revenues;
- financial statements showing your business has enough resources to sustain itself when including the obligations under the **BCCF** loan;
- your accountant's assessment that your business or organisation is viable and ongoing.

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## Maximum loan

### Standard

The standard maximum size of the loan you can get depends on the number of full-time-equivalent (FTE) employees calculated from your wage subsidy funding. It is \$12,500 plus \$2,000 per FTE employee up to a maximum loan of \$312,500.

You have the option to apply for the full loan amount offered or a smaller loan. You can only make one loan application and no amendments can be made after the loan has been applied for.

To determine the number of FTE employees, two part-time employees on the wage subsidy will be treated as one full-time employee. The result will be rounded up to the nearest FTE employee.

### Example: Harry's Haulage

Harry's Haulage has 5 full-time and 3 part-time employees that received a wage subsidy under the June 2020 Wage Subsidy scheme.

For the purposes of the maximum loan size, Harry's Haulage is considered to have 7 full-time-equivalent employees. The 3 part-time employees divided by 2 equals 1.5 rounded up to 2 plus the 5 full-time employees gives a total FTE of 7.

The maximum loan that Harry's Haulage can apply for is \$26,500, which equals \$12,500 base loan plus \$14,000 (7 times \$2,000).

### Exceptional circumstances

**BCCF** loans higher than the standard maximum may be offered, on a case by case basis and at the discretion of the Financial Secretary, where agreed in advance of a **BCCF** loan application, in the following exceptional circumstances:

- in addition to the standard eligibility criteria, your business has a turnover, or expected turnover in normal circumstances, of greater than \$5 million per year and you employ, either currently or in normal economic circumstances, more than 25 full-time equivalent staff;
- you demonstrate:
  - the need for a credit facility loan greater than the standard maximum to ensure long-term business viability; and
  - that your business is viable and ongoing and has enough resources to sustain itself when including the obligations under the **BCCF** loan;to the satisfaction of the Financial Secretary, including through the provision of cash flow forecasts and financial statements.
- you agree to certain business performance reporting requirements over the life of the loan.

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## Receiving and repaying the loan

### Conditional approval

RMD will notify you of conditional approval of the loan, however you will then need to open a loan account at BCI in order to be fully approved and receive the loan payment. Applicants will need to open a loan account by going into a BCI branch. Be sure to bring originals of all of the documents you submitted with the application, including identity documents. If a Shareholder or Director is overseas, you can provide a Justice of the Peace certified copy of their original identity document.

### Wait for conditional approval

Don't go to BCI to open your loan account until you are notified of conditional approval by RMD.

### Receiving the loan payment

Once you have successfully opened your loan account at BCI, and you are notified that your loan is fully approved, most applicants will receive their loan payment in full within 10 working days. It will be paid by BCI into your nominated employer CINSF bank account.

There will be no loan adjustments for any tax debt owed and the loan is not subject to income tax or VAT.

## Repaying the loan

You will have 4 years (48 months) to pay off the loan.

Loans will be subject to an annual interest rate of 3 per cent from the date it is provided by us. During the loan period, the following general rules apply:

- if you repay the loan in full within 12 months you will only be charged interest at an annual rate of 1 per cent;
- if you do not repay the loan in full within 12 months, you will be charged interest at the annual rate of 3 per cent for the entire term of the loan until your loan is fully discharged;
- repayments are not compulsory in the first 24 months, but voluntary payments can still be made over this period;
- after 24 months, you will be required to make regular payments of both the principal and interest.

If you fall behind on your compulsory repayments, which start after 24 months, you will be subject to a penalty interest rate of 10 per cent rather than the standard 3 per cent annual rate.

## Fees

You will be charged BCI's standard account fees in respect of your BCI loan account. BCI's current fee schedule is available at: <https://www.bci.co.ck/explore-accounts-and-services-service-fees-a-charges.html>.

## Terms and conditions

The loan contract will be between the Government and the borrower, with the borrower legally responsible to repay all amounts owing on the loan, including any default interest, to the Government. The [Business Continuity Credit Facility Loan Terms and Conditions](#) are published on the MFEM website, with a link provided in the CINSF online application process.

At the conclusion of the **BCCF**, that is 48 months after the final **BCCF** loan is issued, RMD will take responsibility for the administration of any outstanding loan amounts.

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## Timing

Online applications for a **BCCF** loan will open on 10 July 2020 and close on 30 September 2020. Applications will be assessed by RMD and following conditional approval, and you subsequently opening your BCI Loan Account, you will be notified of full approval and then BCI will make the loan payment into your CINSF nominated bank account.

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## How to apply

You must login to your employer CINSF account when the application period commences and apply for a loan by completing the **Business Continuity Credit Facility Loan Application**. You will only be able to access the application when you meet the Wage Subsidy and Training Subsidy eligibility requirements. The application process requires that you:

- Provide your full name, position and contact details.
- If your business is a company, confirm that you are registered or re-registered in the online Companies Registry under the *Companies Act 2017* and provide your registration number, and if not, commit to registering by 9 December 2020.

- Enter the loan amount you are requesting, up to the maximum you are allowed, which will be displayed on the application form.
- Download a copy of the [Business Continuity Loan Terms and Conditions](#) that, together with your application, will constitute the loan contract between you and the Government when your application is completed by you and you are notified you that your application is fully approved.
- Confirm that:
  - your business is viable and ongoing, you have a plan to ensure it remains viable and ongoing, and you are keeping evidence we can use to check this;
  - your business was active as at 1 March 2020;
  - your business is based in the Cook Islands;
  - your business tax lodgements with RMD are up to date, or arrangements have been made to bring them up to date;
  - you will use the loan to pay for core operating costs (including, but not limited to, rent, insurance, utilities or supplier payments);
  - the loan will not be used for shareholder distributions, buyouts, transfers or other related transactions, refinancing existing debt or on-lending;
  - you are 18 years or over and have the legal right to apply for this loan;
  - you are aware we are not providing financial or other advice regarding this loan;
  - you have downloaded and agree to the terms and conditions.
- Complete the BCI account application requirements:
  - **If your business is a company:**
    - Download, complete, sign and attach the BCI *Company Account Mandate*;
    - Attach copies of two forms of ID for each Director and Shareholder (IDs must not be expired, and names must be identical on each of the two forms of ID e.g. one ID cannot denote “Teremoana” and the other “Moana”):
      - **Photo ID:** Driver's licence or Passport;
      - **Proof of residence:** Power bill, phone bill, RMD letter, or a Cook Islands Driver's License (only if not already used as photo ID).
    - Attach certified copies of:
      - Certificate of Incorporation;
      - Company Constitution or alternatively Memorandum of Association or Articles of Association if you do not have a Company Constitution;
      - Notice of Registered Office; and
      - Director's Resolution (stating the purpose and nature of the account, authority to open a bank account and confirming person/persons to operate on the account).
  - **For other businesses:**
    - Download, complete, sign and attach the BCI *Individual and Joint Account Mandate*;

- Attach copies of two forms of ID for each Director and Shareholder (IDs must not be expired, and names must be identical on each of the two forms of ID e.g. one ID cannot denote “Teremoana” and the other “Moana”):
  - **Photo ID:** Driver's licence or Passport;
  - **Proof of residence:** Power bill, phone bill, RMD letter, or a Cook Islands Driver's License (only if not already used as photo ID).
- When your application is complete, click on the Submit button. You will be required to confirm that you have the appropriate authority to commit your business to the loan, before you can submit your application.

Following assessment, if your application is in order and meets all the requirements, you will be notified by RMD that your loan is conditionally approved, subject to you opening a BCI loan account to administer your **BCCF** loan. Following that you will be notified, and then on behalf of the Government, BCI will make the approved loan payment into your CINSF nominated bank account and administer your loan repayments.

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## Budget impact

This measure will require an estimated appropriation of \$12.0 million in 2020/21.

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## For further information contact:

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