



Business Continuity Credit Facility

Helping businesses weather the financial storm

Context

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 1 July 2020 to 30 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 factsheet) and the Business Growth Loan Program.



The **Business Continuity Credit Facility** 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 **Business Continuity Credit Facility** 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>.

Summary



The key features of the Credit Facility 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.



- **maximum loan size** — the 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, with a maximum loan of \$312,500.
- **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 Superannuation Fund (CINSF) account. Following approval by the Revenue Management Division (RMD), BCI, on behalf of the Government will make the loan payment into your CINSF nominated bank account and administer your loan repayments.
- **timing** — applications will be open from 1 July 2020 and close on 30 September 2020.

Objective

The **Business Continuity Credit Facility** 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 **Business Continuity Credit Facility** 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.

Eligibility

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 on the online Companies Registry administered by the Ministry of Justice, or commit to doing so by 31 December 2020.
- have received a June 2020 payment or be receiving a July 2020 payment under the COVID-19 Wage Subsidy or Training Subsidy measures;
- be up to date with business tax lodgements with RMD or 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 initiative. Each applicant is strongly advised to seek their own independent financial advice before applying for a business continuity loan.

The RMD decision on loan applications is final.

What do we mean by viability?

To be eligible for the **Business Continuity Credit Facility** 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 18 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 Credit Facility loan;
- your accountant's assessment that your business or organisation is viable and ongoing.

Maximum loan

The 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. In exceptional circumstances consideration may be given, on a case by case basis, for continuity loans greater than the stipulated maximum.

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).

Receiving and repaying the loan

Receiving the loan payment

Once approved by RMD, most applicants will receive their loan payment in full within 10 working days. It will be paid by BCI into your nominated employer CINSF 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.

Following approval of your loan, BCI will open a loan repayment account for your business. This account, which will be accessible online using BCI internet banking services, will be used to manage the interest accruing on your loan and your loan repayments (interest and principal) over the life of the loan.

Terms and conditions

The loan contract will be between the Government and the loan recipient, with the loan recipient legally responsible to repay all amounts owing on the loan, including any default interest, to the Government. The *Business Continuity Loan Terms and Conditions* will be published on the MFEM website and made available to applicants through the CINSF online application process, before applications open.

At the conclusion of the Credit Facility scheme, that is 48 months after the final loan under the Facility is issued, RMD will take responsibility for the administration of any outstanding loan amounts.

Timing

Online applications for a Credit Facility loan will open on 1 July 2020 and close on 30 September 2020. Applications will be assessed by RMD and following approval, BCI will make the loan payment into your CINSF nominated bank account.

How to apply

You must login to your employer CINSF account from 1 July 2020 and apply for a loan by completing the Business Continuity Loan Application:

- Provide your full name, position and contact details;
- Identify your business structure (company, partnership, sole trader etc);
- If your business is a company, confirm that you are registered on the online Companies Registry and provide your registration number, and if not, commit to registering by 31 December 2020;
- Confirm that your business or organisation has been approved and received a June 2020 and/ or July 2020 payment under the Wage Subsidy or Training Subsidy scheme.

- Enter the number of full-time and part-time employees for which you have received your most recent wage subsidy or training support payment.
- Enter the loan amount you are requesting, which can be up to the maximum 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 if you are notified that your application is 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 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 have the appropriate authority to commit your business to this loan;
 - 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 agree to the terms and conditions.
- Complete the BCI account application requirements and attach any required documents.

Once your application is assessed, if it is approved by RMD, you will be notified, and the full amount of your loan will be paid into your CINSF nominated bank account.

Budget impact

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

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