



## Business Growth Loan Program

### Access to cheaper finance to stimulate business investment

#### Context

The Cook Islands economy is highly reliant on the tourism industry, with an estimated 65 per cent of economic activity driven directly and indirectly by tourism. This makes the economy vulnerable to shocks that directly impact the tourism industry. The COVID-19 pandemic has had a significant negative impact on the economy, with growth forecast to be around negative 35 per cent in 2020/21 without Government support.

In response, the Cook Islands Government has developed the Economic Response Plan to target areas of the economy that are a risk to economic stability, while also looking at avenues to generate growth in the short-term. The Plan includes a suite of credit initiatives, the [Interest Relief Program](#), the [Business Continuity Credit Facility](#) and the Business Growth Loan Program (the subject of this Fact Sheet).

The **Business Growth Loan Program** (BGLP) is a collaboration between the Government and Cook Islands commercial banks that choose to join. Participating banks will issue and administer **BGLP loans** under this initiative, with the Government providing an 80 per cent loan guarantee.

The BGLP is designed to foster new business investment to drive economic growth, by reducing loan risks and therefore lowering the cost of borrowing.

#### BGLP 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 give guarantees to Cook Islands commercial banks for the purposes of the BGLP.



The Financial Secretary is required under section 33(1) of the Act, on or before the 31 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 BGLP works;
- (b) the criteria for eligibility under the BGLP to receive a loan; and
- (c) the loan terms required to give effect to the BGLP.

This Fact Sheet, together with the Business Growth Loan Terms, 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 33(1)(a) to (c) of the Act.

---

## Business Growth Loan Program

The Business Growth Loan Program is designed to provide the opportunity for businesses to invest in and expand or upgrade their facilities or services during the current downturn.

This type of credit is forward-looking, targeting businesses that are in the position to take on additional investments, which will expand their operations, increase their levels of resilience or upgrade the products they offer.

The loan terms required to give effect to a BGLP loan are set out in the Business Growth Loan Terms. BGLP loans will be issued for a maximum period of 8 years, with a Government guarantee from the date the guarantee is signed until 30 June 2025 allowing participating banks to offer lower interest rates than current market rates. While the actual rate offered on an individual BGLP loan will depend on the nature of the loan, the borrower and the lending bank, the Government is targeting rates to range from **5 to 6 per cent** per year.

Loans will also be subject to the lending bank's usual business lending terms and conditions, for example compounding periods and how this is applied.

While the Government guarantee finishes after 30 June 2025, loans may still be repaid after this date. However, it is expected that the cessation of the guarantee will lead to the interest rates charged rising.

For borrowers who find themselves in default, default interest rates will be determined by the lending bank according to their standard terms and conditions. The expectation of Government is that default rates will be waived except in circumstances involving fraud, bad faith, recklessness or similar behaviour.

### How much assistance is available?

BGLP loans are available between \$100,000 and a maximum of \$1 million, implying a Government guarantee capped at \$80,000 and \$800,000, respectively. The total pool of BGLP loans available is \$15 million. For businesses that require more credit, additional loans may be available at the discretion of the lending bank, but the additional credit will not be a BGLP loan and therefore not subject to the Government guarantee.

### How will the guarantee work?

A borrower will be required to repay the BGLP loan in accordance with the lending bank's usual business lending practices. If a borrower defaults on their BGLP loan, the bank will first attempt to work with the borrower to rectify any arrears and make arrangements to recover debt owing. If this is unsuccessful, the Government will pay the bank in question 80 per cent of the bank's losses on the loan. Borrowers will remain liable for the loan default amount to the bank in question. The total guarantee amount will be distributed between the banks that are participating in the BGLP.

### Eligibility

Businesses are eligible for one BGLP loan and will need to confirm with the lending bank that they have not received a BGLP loan from another bank.

Eligible businesses must:

- be active as of 1 March 2020 and be based in the Cook Islands;
- if the business is a company, it must be registered on the online Companies Registry, or commit to doing so by 9 December 2020;
- demonstrate profitability or viability prior to 1 March 2020;
- have a plan to ensure they remain viable and ongoing; and
- have business tax lodgements with Revenue Management Division (RMD) up to date, or arrangements made to bring them up to date. This will be in the form of a declaration, to be confirmed by RMD.

Standard assessment criteria will also be applied by the lending bank, including those being on credit watch lists prior to this crisis being ineligible.

Funds from loans provided under this program must be used for the purpose of investing, expanding or upgrading the borrower's business and are prohibited from being used for:

- shareholder distributions;
- any residential property development;
- refinancing existing debt or on-lending.

### How to apply

Borrowers will be required to apply for a BGLP loan with any of the participating Cook Islands banks in accordance with the published Business Growth Loan Terms, as well as standard bank loan procedures. The lending banks will be required to pass relevant information on loans issued under this program to Government.

### Example

If a business were to apply to access \$300,000 under this program, they would work with a participating commercial bank to apply for the loan, and if approved by the bank (based on the criteria in the Business Growth Loan Terms and the bank's ordinary business lending policies) the loan is entered into. If, at any time prior to 30 June 2025, the loan is in default, following standard bank recovery processes, the Government will cover 80 per cent of the bank's losses. If the bank's losses on the loan are \$200,000, then the guarantee paid would be \$160,000.

### Timing

This program is expected to commence in August 2020, and remain open until available guarantee funds are exhausted, subject to funds borrowed under a BGLP loan being drawn down by 30 June 2021 at the latest.

### Cost

The total amount of BGLP loans guaranteed by the Government is capped at \$12 million (which implies total loans of \$15 million). The actual cost of the measure will depend on the level of default.

---

## For further information contact:

Natalie Cooke, Director  
Economic Planning Division  
Ministry of Finance and Economic Management  
PO Box 120, Avarua, Rarotonga, Cook Islands.

Telephone: +682 29511 ext. 8314

Email: [mfem.economics@cookislands.gov.ck](mailto:mfem.economics@cookislands.gov.ck)

Website: [www.mfem.gov.ck](http://www.mfem.gov.ck)

### *Disclaimer*

*While all care has been taken to ensure that information contained in this publication is true and correct at the time of publication, changes in circumstances after the time of publication may impact on the accuracy of the information. The Government of the Cook Islands gives no warranty of assurance and makes no representation as to the accuracy of any information or advice contained in this publication, or that it is suitable for your intended use. You should not rely upon information in this publication for the purpose of making any serious, business or investment decisions without obtaining independent and/or professional advice in relation to your particular situation. The Government of the Cook Islands disclaims any liability or responsibility or duty of care towards any persons for loss or damage caused by any use of reliance on the information contained in this publication.*