

TABLE OF CONTENTS

Introduction	Page 1
Section 1.0 Purpose and Objectives	Page 2
Section 2.0 Eligible Hotels and Attractions	Page 2
Section 3.0 Types of Projects Funded by the TLF	Page 2
Section 4.0 Application Procedures	Page 3
Section 5.0 Terms and Conditions of Loans	Page 4
Section 6.0 Procurement and Disbursement Procedures	Page 6
Section 7.0 Commitment Fees	Page 7

INTRODUCTION

Towards the end of 1998, the Government of Barbados, through the Division of Tourism, commissioned a study to recommend an appropriate fiscal, legal and regulatory framework for the future of tourism development in Barbados.

A major finding of this study was that owners of traditional accommodation properties (hotels, apartments and apartment hotels) were often faced with a lack of financing options (available on attractive terms) for the refurbishment and upgrading of plant and equipment. Also of significance, was that financing was not available on attractive terms and conditions for the further development of attractions which emphasized our historical, cultural and natural heritage.

In light of these findings, the Government of Barbados accepted the recommendation that a Tourism Loan Fund should be established to provide financing on concessionary terms to those entities operating in the accommodation sub-sector and to those operating in or desirous of entering the attractions sub-sector. Thus, in the Financial Statement and Budgetary Proposals of 24th August 1999, the Prime Minister and Minister of Finance and Economic Affairs, proposed the establishment of a Tourism Loan Fund to be effected in the first instance by transferring \$30.0 million from the Industrial Credit Fund to Enterprise Growth Fund Limited (EGFL).

March 2004

THE TOURISM LOAN FUND

GUIDELINES & LOAN APPLICATION PROCEDURES

The provisions contained herein will form the basis on which loans will be administered by the Tourism Loan Fund.

1.0 PURPOSE AND OBJECTIVES

Resources from the Fund will be used to provide loans for the following purposes:

1. Refurbishing and upgrading of plant and equipment in the small accommodation sector; and
2. Refurbishing and upgrading or construction of facilities to be used for the purpose of carrying on business in the areas of historical, cultural and natural heritage attractions.

2.0 ELIGIBLE HOTELS AND ATTRACTIONS

The Tourism Loan Fund will be used to make loans to the following:

1. Accommodation properties with two hundred rooms or less.
2. Facilities to be used for the purpose of carrying on a business in the area of our natural, historical and cultural heritage.

There must be no government participation in the share capital of these entities.

3.0 TYPES OF PROJECTS FUNDED BY THE TLF

The Tourism Loan Fund will be used for the following purposes:

1. Refurbishment, rehabilitation, renovation or complete rebuilding of accommodation properties with two hundred rooms or less;
2. The construction of new facilities, including buildings together with ancillary facilities and equipment, where the facilities are to be used for the purpose of carrying on a business which emphasizes our historical, cultural, and natural heritage;
3. The refurbishment, rehabilitation, renovation or expansion of existing facilities, including buildings together with ancillary facilities and equipment, where the facilities, are to be used for the purpose of carrying on a business, which emphasize our historical, cultural and natural heritage.

4.0 APPLICATION PROCEDURES

Entities wishing to access funding from the Tourism Loan Fund should provide the following information and documentation in support of their application:

1. **A comprehensive business plan** which clearly demonstrates that the project is commercially viable. The business plan should include, but not be limited, to the following information:
 - a) A clear definition of the project;
 - b) The estimated total cost of the project supported by bills of quantity;
 - c) The amount of loan funds being requested;
 - d) Management skills;
 - e) The use of the proceeds of the loan;
 - f) Other sources of financing for projects whose total cost exceed the loan amount;
 - g) Details relating to shares and to the number of shares held by shareholders;
 - h) Realistic financial projections for 5 years (balance sheet and income statement), showing the ability of the entity to meet its debt-service obligations as well as a risk and sensitivity analysis;
 - i) Internal rate of return (hurdle guide between 10% and 12%);
 - j) Foreign exchange earning capacity;
 - k) Employment generation.
2. **For existing entities, audited financial statements** (income statement and balance sheet) of the enterprise for the last three years immediately preceding the year of application.
3. **A copy of the following corporate documentation:**
 - a) A copy of the Certificate of Incorporation;
 - b) A copy of the Notice of Address or Notice of Change of Address of the entity's registered office;
 - c) A copy of the Notice of Directors or Notice of Change of Directors;
 - d) A copy of the Articles of Incorporation;
 - e) Where appropriate an environmental impact assessment may be required.

4. **Governmental or corporate approvals, permits and consents** required in connection with the execution of the project. These must be obtained and in full force and effect (proof provided to EGFL) prior to disbursement of funds.

5.0 TERMS AND CONDITIONS OF LOANS

5.1 *Loan size*

The maximum loan size is the higher of \$4.5 million or 15% of the total capitalization of the Fund.

5.2 *Interest Rates*

For all loans with repayment periods of 10 years or less the concessionary interest rate will be established at approximately 3 percentage points below the weighted average prime rate of commercial banks. The interest rate is currently 6.5%.

The following policy framework will be used as a guide to any future changes to the concessionary interest rate:

- (a) the concessionary interest rate shall not fall below the minimum savings rate for commercial banks.
- (b) The rates of interest applicable to loans from the Tourism Loan Fund shall be reviewed annually or more frequently if necessary and any appropriate adjustments made provided that such adjustments do not exceed two percentage points upwards or downwards in any one calendar year.
- (c) For all loans with repayment periods of ten (10) years or less the concessionary rate of interest will apply. For all loans with repayment periods greater than ten (10) years, an additional charge not exceeding one (1) per cent per annum will be applied to the principal outstanding after the end of the tenth year.

5.3 *Loan Restrictions*

During any ten year period a client of the Fund should not be eligible to borrow at concessionary rates more than the higher of \$4.5 million or 15% of the total capitalization of the Fund.

Loans from the Tourism Loan Fund shall not be used to purchase land, land and buildings or other real estate except where the buildings are to be used for productive purposes. In such cases, only the costs of erecting or renovating the buildings including expansion will be financed.

5.4 *Loan Repayment Periods*

Repayment periods will be ten years or less. However, EGFL will use its discretion to offer loans with repayment periods that are longer than ten years. Such loans will, attract a rate that is higher than the concessionary rate in accordance with clause 5.2.

5.5 *Moratoriums*

1. The grace period, (during which only interest payments are due and payable), for loans with repayment periods of five years or less will be limited to one year.
2. Where a construction and/or installation contract is less than one year, the grace period will be limited to the length of construction and/or installation contract.
3. For loans with repayment periods in excess of five years but less than or equal to ten years the grace period will be limited to not more than two years.
4. For loans with repayment periods in excess of ten years the grace period will be limited to not more than three years.

5.6 *Loan Security*

Security on loans will generally take the form of a first legal mortgage, but the Fund is prepared to take second mortgages in instances where 80% of the market realisation value of the underlying security is adequate to liquidate all prior charges and the Fund's exposure.

5.7 *Refinancing*

Refinancing of existing debt will be limited to no more than 25% of the proceeds of any loan and will be undertaken only in those instances where it is essential to the perfection of security or the smoothing out of debt service payments. **The Fund will be utilised primarily for the upgrading of existing assets and the acquisition of new capital assets.**

5.8 *Statutory Payments*

Prior to disbursement, the applicant must ensure that all N.I.S, taxes and P.A.Y.E are current, or that satisfactory arrangements have been made (proof provided to EGFL) to bring any arrears current.

6.0 PROCUREMENT AND DISBURSEMENT PROCEDURES

- 6.1** The responsibility for the execution of the project, the award and administration of contracts under the project and the procurement of goods and services rest with the borrower. EGFL will seek to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency.
- 6.2** For the procurement of those goods and services not financed out of the proceeds of the Tourism Loan Fund, the borrower may adopt other procedures. In such cases, EGFL must be satisfied that the procedures to be used will fulfil the borrower's obligation to cause the total project to be carried out diligently and efficiently. EGFL must also be satisfied that the goods and services to be procured:
1. Are of satisfactory quality and are compatible with the balance of the project;
 2. Will be delivered or completed in a timely fashion; and
 3. Are priced so as not to adversely affect the financial viability of the project.
- 6.3** The following administrative procedures will be instituted with respect to the procurement of goods and services and disbursement of loan proceeds,
1. Any construction works financed by the proceeds of a loan from the TLF should be executed under a fixed priced contract.
 2. Loan funds allocated to construction works should be disbursed, as far, as is practical, directly to the contractor carrying out the construction.
 3. The amount disbursed in each installment will be made against certificates of payment based on valuations carried out by a quantity surveyor agreed to by EGFL for the purpose of valuing work in progress.
 4. Any major change or variation contemplated in the execution of the contract for construction works should be approved by EGFL, where in this context a major change or variation would be one that results in an increase in the cost of the appropriate component of construction

works by 10% or more of the physical contingency provided for in the budget for construction works.

5. Disbursement for furniture and equipment financed by the proceeds of a loan from the Fund will be made, as far as is practical, to the supplier where items are procured locally or to the borrower where the items are to be imported directly by the borrower. In all instances the amount of the disbursement should reflect:
 - (a) The cost of the furniture, fixtures and equipment as indicated in pro forma invoices; and
 - (b) The percentage of the cost of or the value of furniture, fixtures and equipment being financed by the loan proceeds.
 - (c) Where the plant and equipment is being imported directly, the borrower should be required to provide evidence that the borrower has remitted the appropriate funds to the supplier within thirty days of receiving disbursement from the Fund.

7.0 COMMITMENT FEES

A commitment fee of 1.0% of the undisbursed balance, commencing the first day immediately following the signing of the loan agreement, will be charged on each approved loan.

.....
The Tourism Loan Fund
An initiative of the Government of Barbados