



How much liquidity (cash)  
do you need to survive the  
pandemic?

April 28, 2020



# SHOULD YOU TAKE THE LOAN OR THE MORATORIUM?

## **How much liquidity (CASH) is enough to survive the pandemic?**

If you “guess” wrong and have to close your business a few months from now, it might cost you less to close now rather than spending the money (or taking out a loan) to keep the business open just for a few months. If you “guess” right and are able to keep open through the pandemic and come out on the other side, you will emerge a winner. “Last man standing.”

**Many SMEs are wondering if they should take out a new loan or accept the banks’ loan moratoriums or deferrals in order to cover their business expenses in the short term.**

## **The reality is, it depends on a few critical factors.**

1. What is the extent of your situation - How bad is it? Complete shut down or hobbling along? How likely is it to deteriorate further?
2. How soon or how likely is it that you will recover? After lock down, will the business spring back into action or will it be a long road to profitability?
3. How do you intend to use the funds? Preserving valuable assets (anything you own that can be traded or sold for cash) or skilled employees and/or getting new customers who can bring in real revenue now, would be excellent ways to spend borrowed funds;
4. If you get new funds, how long can you survive? 3 months? 6 months? 12-18 months? The longer you can survive without returning for additional funding, the better. Will your business generate sufficient cash flow to service any new loan received?
5. Personal financial character. Are you mostly a saver or a borrower? If you always live on the financial edge and rarely ever put money away, now is not the time to take on additional debt;
6. How is the bank structuring the payment relief agreement? Are they ‘capitalising’ the interest so that you will be paying interest on interest and coming out of this pandemic period with overwhelming debt? It is critical to think about your ability to service your loans after COVID.
7. What is the likely impact on your credit rating? Do you know what your credit rating is? Or why it matters?



# SHOULD YOU TAKE THE LOAN OR THE MORATORIUM?

## 1) How bad is the situation currently?

- Is the business completely closed with only expenses recurring but no revenue? For example, a hotel on the North Coast where resumption of business is uncertain; OR
- Have you only partially slowed down with half as much sales as usual but unable to cover all of the expenses. For example,
  - A restaurant where most people are staying at home and you are only doing some modest takeout and delivery; or
  - A marketing company where major clients have slashed their budgets;
- Are you a part of a growth area such as medicine or online learning, or have you pivoted your business into a growth area?

## 2) How soon or how likely will your business recover? After lock down, will your business spring back into action or will you still have a long road to profitability?

- If you were to speak to almost any woman in Jamaica, the service she is most looking forward to post COVID-19 restrictions, is getting her hair done professionally. The salon industry has desperate pent up demand. A hairdresser in business for more than 3 years with regular customers will therefore spring back quickly;
- A small boutique hotel focused on high end customers with excellent reviews on Trip Advisor will slowly come around. When people start travelling again, the hotels focused on high end customers will come back first because middle class customers do not view travel as an essential purchase. For the first time hotels will have to advertise how their rooms are cleaned or guarantee that any room sold has not been occupied for a certain amount of time;
- A craft shop or tourist activity whose primary customers came from passengers on cruise ships will be very slow to come around; one fifth of the global fleet of ships were infected by the virus; therefore, the cruise industry with its dense passenger and crew operations will not easily overcome the widespread fear caused by COVID-19.



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## 3) What is the intended use of funds?

Preserving a valued asset or skilled employee, marketing to acquire new customers and build up revenue would be excellent reasons to borrow money. However, borrowing to pay rent on a retail property no longer in use and not generating revenue may be ill-advised;

- A small hotel on the beach might want to use borrowed funds to preserve the property against salt water damage or keep paying the “star” bartender who is a main attraction for many returning guests;
- a retail company could build out an e-commerce website and commence running ad campaigns on social media;
- a software developer may pivot and use the funds to build a teaching Q&A app to support online education.

## 4) If you get the funds, how long can the business survive? 3 months? 6 months? 12-18 months? Will the business generate sufficient cash flow to cover the loan payments?

- No one can predict exactly how long we will be in restriction mode and therefore a business plan that contemplates a longer restriction time will be better than one which assumes that in 3 months we will be moving back to normal;
- The longer you can survive without returning for additional funding, the more it may be appropriate for you to take on the debt;
- An established social media marketing company that in the first few weeks of COVID-19 may have seen their customers cut marketing budgets due to uncertainty need only hold on for a few months; borrow for the short term, if needed, as eventually corporate companies will start to seek out online campaigns to create visibility in the lock down. Moreover, once COVID has passed there will be a rush to create large marketing campaigns;
- An incomplete construction project where most of the units were not sold may need longer term financial support as potential buyers may be “under water” after the COVID-19 crisis.



# SHOULD YOU TAKE THE LOAN OR THE MORATORIUM?

## 5) Personal financial character. Are you mostly a saver or a borrower?

- If prior to COVID, you always lived on the financial edge and rarely ever put money away for a rainy day, now may not be the time to take on additional debt. During a pandemic, there is more naturally occurring economic risk in any business decision.
- **The creatively thrifty will rule the day.**

## 6) How is the bank structuring the loan agreement or the moratorium and deferred payments?

- Is it principal only that is being deferred? If so when is the interest that is accrued during the period due for payment? Is it due at the end of the moratorium period or payable any time during the remaining tenure or at the end of the original loan period?
- Are banks capitalizing the interest so that you will be paying interest on interest, and coming out of this pandemic period with overwhelming debt? ASK!!
- Is the loan repayment schedule flexible and mirroring your likely cash flow or is it due whether you have revenue or not?
- **Time to read the fine print and ask questions!**

## 7) What is the likely impact on your credit rating? Do you know what your credit rating is? Does it matter?

- A credit rating is a comprehensive credit profile of a borrower which reflects the payment history on current and past credit received.
- Your credit rating is a combination of:
  - Credit Utilization: how much debt you owe relative to how much more debt you can afford to take on, i.e. your debt service ratio;
  - Payment History: how timely have you been in paying your obligations;
  - Collections and Charge Offs: History of walking away from debts owed;
  - Length of Credit History: Length of time credit account has been opened;
  - Credit Inquiries: How many times credit bureaus are asked to produce an individual borrowers' credit reports; many inquiries by multiple lenders is negative.



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## 7) What is the likely impact on your credit rating? Do you know what your credit rating is? Does it matter? (continued)

- Lenders examine potential borrowers' credit history to assess suitability for a loan; ability to repay the loan can affect the terms/rates of the credit offered;
- There are 3 main credit bureaus in Jamaica: Creditinfo Jamaica, CRIF Information Bureau, and Credit Information Services who maintain the credit ratings of all individuals, corporations, and SMEs;
- Under normal circumstances, if you missed 3-6 months of payments on your debt, this would negatively impact your credit rating;
- However, since these COVID-19 times are not normal circumstances, lenders and the credit bureaus are working through ways in which your credit rating will not be negatively impacted if you take a moratorium or deferred payment;
- Each bank and each credit bureau will be managing these moratoriums and deferrals differently;
- Before you apply for a loan or a deferral, request a current credit report and see where you stand now, then a few months later request another report to ensure that your credit is still intact. **Consumers are allowed one free credit report per year;**
- It is important for you to find out from your financial institution if there are special reporting procedures in place to manage your credit rating, a bad credit history usually takes about 7 years to clear up;
- We are in new financial territory. It is your responsibility to get assurances (written) from your bankers that deferred payments in the time of COVID will not deteriorate your credit.

Ensure that you work with your banker to ensure that you do not get under any kind of debt from which it will be impossible to recover. The bottom line is that not all businesses will survive the pandemic. Even businesses that were doing well before COVID-19 may go under. Tread carefully in the coming weeks and months.

**Read every contract end to end as if your financial life depended on it. Because it does! Ask questions. If you do not understand, ask again.**

**Be bold. Be clear. Be resolute. Only take on debt which will align with your expected cash flow.**



# ASSESSING YOUR OWN SITUATION

*Circle the boxes that apply to you*

FACTORS TO CONSIDER	RED FLAGS	BE CAREFUL	OK TO PROCEED
1) How badly is the situation now?	Business Closed	Partially shut down	Mostly Operational or Pivoted to new business that is operating
2) How soon or likely is the recovery?	Unlikely for a long time	Local customers with clear articulated needs; Necessary vs. optional demand	Pent up demand for product or service
3) Intended Use of Funds?	Pay rent for unused location; preserve underutilized staff at full price for long periods	Retain best talent; Keep critical infrastructure maintained	Build website; marketing spend to get customers and build current revenue
4) If you get the funds, how long can you last in the current COVID conditions?	3 months	6 months	12- 18 months
5) Pre-COVID Personal Financial Character?	At end of year owed more money than the previous year; often late with bills and loan payments	Very little savings or minimum debt	Usually have savings at end of each year; pay most bills on time
6) How is the bank structuring the loan or the moratorium?	Capitalized interest where you are paying interest on interest	Periodic payment holidays that allow for fits and starts; low/no additional interest in the pauses	Flexible payments that mirror anticipated cash flow
7) Likely impact on your credit rating?	Reported for missed payments and credit rating negatively impacted	Unclear responses & you are unsure	Preserve your pre-COVID rating; written assurances from bank
Take the Loan or Moratorium ?	More than 3 red flags, no	Mostly yellow with some green, yes Mostly yellow with some red, no	Mostly green with 1 or 2 yellow, yes



# NOTE ON THE CREDIT ENHANCEMENT FACILITY (CEF) FROM THE DEVELOPMENT BANK OF JAMAICA (DBJ)

## What is the DBJ Credit Enhancement Facility (CEF)?

- The DBJ CEF allows banks and other authorized financial institutions to accept non-traditional collateral from SMEs by partially guaranteeing the loan. It assists SMEs that are otherwise credit worthy but do not have adequate collateral;
- Lowers the risk of default for the lender by guaranteeing up to 80% of the value of an SME loan up to \$30 million; loan tenure up to 10 years;
- Over 600 SMEs have already benefitted from the CEF since its inception in 2009.

## How do SMEs qualify?

- Available to viable SMEs with less than \$425 million in revenue, less than 150 employees, **who are registered**, tax compliant, with good credit history/rating and more than 24 months in business.

## When should an SME try and access the CEF?

- Clear path to repaying back the funds from cash flow generated by business;
- Increased revenue and cash flow from use of funds.

## Other DBJ Facilities

- Vouchers for Technical Assistance giving SMEs access to accountants and other professionals to organize financial records and write business plans
  - These businesses may receive a VTA grant to be used to access **business support services** provided by DBJ-approved **Business Development Organisations**. The voucher covers up to 70% of the cost of specific services and ranges from J\$50,000 to J\$200,000.
- Ignite Grant which is to support SME innovation and new ideas
  - Offers innovative start-up companies a grant for commercially viable inventions or innovations.
- Capacity Development Grants
  - Aim to facilitate job creation, investments and increased access to finance by increasing efficiency, and improving profitability and sustainability.
- Energy Audit Grant to improve SME energy efficiency
  - Provides a grant of J\$200,000 to Micro, Small and Medium-sized Enterprises (MSME) to conduct an energy audit of their facility.
  - The main objective of the programme is to assist MSMEs to make informed decisions regarding Energy Efficiency Measures (EEM) or Energy Opportunity Measures (EOM) and their associated energy-saving potential.





# REFERENCES

## Getting your Credit Ratings

- Every Jamaican over the age of 18 is entitled to receive a FREE copy of their credit report once each calendar year. However, additional credit reports within the same calendar year will attract a cost of JMD \$1000.00 plus GCT.
- Every registered business is entitled to one free copy of its credit report each calendar year. A request may also be made for a Score Report which costs \$1,000 plus GCT.
- Access your Credit Report from any of the three Credit Bureaus listed below:
  1. CRIF – Contact (876) 906-8680 / 618-1515
    - CRIF – Application Guidelines: <https://www.crif.com.jm/media/405818/credit-report-application-processing-guidelines.pdf>
    - CRIF – Application form: [https://www.crif.com.jm/media/405705/consumer\\_creditreportrequest\\_form.pdf](https://www.crif.com.jm/media/405705/consumer_creditreportrequest_form.pdf)
  2. Credit Information Services – Contact (876) 922-5890
    - <https://credit.cisjamaica.com/services/>
  3. CreditInfo – Contact (876) 633-7023
    - Requirements & Application Forms: <https://jm.creditinfo.com/free-creditinfo-report/>

## Support from Development Bank of Jamaica

1. Credit Enhancement Fund (CEF)
  - Fact Sheet - [https://s3.amazonaws.com/ran-s3/dbankjm.com/wp-content/uploads/2020/03/20150352/DBJ-CEF\\_FACTSHEET.pdf](https://s3.amazonaws.com/ran-s3/dbankjm.com/wp-content/uploads/2020/03/20150352/DBJ-CEF_FACTSHEET.pdf)
  - Application Form - <https://s3.amazonaws.com/ran-s3/dbankjm.com/wp-content/uploads/2020/03/20150338/New-CEF-Application-Form.pdf>
2. DBJ IGNITE Grant Program
  - <https://dbankjm.com/ignite/>
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  - [http://s3.amazonaws.com/ran-s3/dbankjm.com/wp-content/uploads/2019/01/09165151/IGNITE\\_Booklet\\_Final.pdf](http://s3.amazonaws.com/ran-s3/dbankjm.com/wp-content/uploads/2019/01/09165151/IGNITE_Booklet_Final.pdf)
3. DBJ Voucher for Technical Assistance Program
  - About the program; guidelines and eligibility - <https://dbankjm.com/services/business-support-services/voucher-for-technical-assistance/>
  - Sign-up on the website to apply for the voucher program - <https://www.dbjvoucher.com/user/register>
  - FAQ - <https://www.dbjvoucher.com/frequently-asked-questions>
4. DBJ Capacity Development
  - <https://dbankjm.com/services/business-support-services/450-2/>
5. Energy Audit Grant Programme
  - <https://dbankjm.com/the-energy-audit-grant-programme/>