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INTRODUCTION

The Government of Barbados pledged a capital injection of BDS\$5.0 million, forming part of the BDS\$20 million Small Hotels Investment Fund (SHIF), with the balance to be raised from the private sector on terms and with concessions similar to those provided to investors of Enterprise Growth Fund Limited. These funds are to be used to finance activities which should lead to an enhancement of the performance of entities, which participate in a business co-operative.

The small hotel sector determined that the most appropriate corporate legal structure to fulfill the objectives of their organisation was that of a not-for-profit corporation as defined under the Companies Act of the Laws of Barbados. The corporation so formed is called the "Small Hotels of Barbados Inc." (hereinafter referred to as SHBI).

The provisions contained herein will be used to guide the approval, disbursement and debt service of loan applications submitted by members of the SHBI to the Investment Committee of SHIF.

These provisions have been approved by the Investment Committee of SHIF and will be subject to changes from time to time by way of a majority vote of the Investment Committee as constituted at paragraph 5.0 (1).

September 2007

SMALL HOTELS INVESTMENT FUND

GUIDELINES & LOAN APPLICATION PROCEDURES

The provisions contained herein will form the basis on which loans will be administered by the Small Hotels Investment Fund.

1.0 PURPOSE AND OBJECTIVES

Resources from the Fund together with their reflows may be used to finance the refurbishing and expansion for entities which participate in the Small Hotels of Barbados Inc.

2.0 ELIGIBLE ENTITIES

The resources of the SHIF will be used to make loans only to:

1. Members of the SHBI in good standing and members who qualify under the by laws and regulations of the SHBI.
2. Entities that comply with the minimum standards as established by the European Travel Trade.
3. Entities that are registered and certified by the Barbados Tourism Authority.
4. Entities that were previously registered and certified with the Barbados Tourism Authority that are desirous of accessing funding for renovations and/or expansion in accordance with the brands and standards as established by the Small Hotels Investment Fund, subject to the binding conditions that:
 - a) prior to first disbursement, the entity commits in writing that on completion of construction works and registration/certification by the Barbados Tourism Authority the borrower will immediately seek membership of the SHBI; and
 - b) failure by the entity to effect the action at (a) above will be a default of the loan that will lead to action being taken by EGFL to recover the loan proceeds.

3.0 APPLICATION PROCEDURES

Entities wishing to access loan funding from the SHIF should provide the following information and documentation in support of their application:

1. **A loan proposal** which clearly demonstrates that the project is commercially viable. The proposal should include but not be limited to the following information:
 - a) A summary information including the borrower's details, type of business and contact information and summary financial statements;

- b) Details of Shareholders/ Directors;
 - c) Credit record;
 - d) Background to the project;
 - e) The project;
 - f) Project costs;
 - g) Projected implementation date/ schedule;
 - h) Marketing;
 - i) Work experience;
 - j) Management;
 - k) Employment;
 - l) Proposed security.
2. **Audited financial statements** for those companies which are required by the Companies Act of Barbados to file annual audited financial statements. Companies which are below that threshold and are therefore not required to file audited financial statements can provide three years' financial statements supported by a review from an independent auditor.
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.
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.

4.0 TERMS AND CONDITIONS OF LOANS

4.1 *Loan size*

The maximum loan size is the greater of \$5.25 million or 15% of the total capitalization of the Fund. The minimum loan size shall be \$50,000.

4.2 *Interest Rates*

The rate of interest on loans will be calculated at the rate of 5% (five percent) per annum.

4.3 *Loan Restrictions*

During any ten-year period a client shall not be eligible to borrow more than the higher of \$750,000 or 15% of the capitalization of the Fund.

Loans from the SHIF 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.

4.4 *Loan Repayment Periods*

Repayment periods will be 5 years or less. Thus all loans shall be fully repaid within a 10 year period which includes a 5 year moratorium on interest and principal repayments.

4.5 *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.

4.6 *Refinancing*

The resources of the Fund shall not be used to refinance existing debt. **Loans will be provided primarily for the upgrading of existing assets and the acquisition of new capital assets.**

4.7 *Statutory Payments*

Prior to disbursement, the applicant must ensure that all N.I.S, V.A.T, P.A.Y.E and other taxes are current, or that satisfactory arrangements have been made (proof provided to EGFL) to bring any arrears current. Evidence of good standing will be provided by way of compliance certificates from the relevant statutory authorities.

5.0 APPROVAL PROCESS

Approval of a loan application is obtained by submission of documentation as detailed under clause 3.0:

- (1) For consideration, review and approval by the Investment Committee of SHIF to be constituted as follows:
 - Two representatives of EGFL
 - Two representatives of SHBI

- One representative of the Ministry of Tourism and International Transport (Division of Tourism)

(2) **Chairman**

The Chairman shall be the Permanent Secretary, Tourism. In his absence a duly authorised representative of the Division of Tourism, Ministry of Tourism and International Transport shall act as Chairman.

(3) **Quorum**

Three committee members shall form a quorum for the transaction of business. No business shall be transacted at a meeting unless a quorum is present.

A quorum shall be constituted as follows:

- a) One representative of EGFL
- b) One representative of SHBI
- c) The Permanent Secretary, Tourism or in his absence, a duly authorised representative of the Division of Tourism, Ministry of Tourism and International Transport.

(4) **Voting**

Questions arising at any meeting of the Investment Committee of the SHIF shall be decided by a majority of votes. EGFL and SHBI shall each have two representatives entitled to one vote per representative and the Chairman shall have one vote and a casting vote.

6.0 DEBT SERVICE

All loans to individual entities shall be for a maximum period of 10 years and shall be amortised over the last five years of the loan. Interest payments during the five-year moratorium period shall be capitalised. During the five-year amortisation period, interest charges shall be applied to the principal outstanding (including capitalised interest payments) to arrive at the installment amount due.

Example: Assume an application is approved for a loan of \$100,000. Then interest charges will accrue at the rate of 5% per annum during the five-year moratorium period. Thus at year five, assuming no payments are made, \$28,335.86 will be added to \$100,000 to arrive at the principal balance outstanding of \$128,335.86. Over the remaining five years the loan balance of \$128,335.86 will be amortised at an interest rate of 5% per annum resulting in a repayment schedule of sixty equal instalments of \$2,421.85.

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The Small Hotels Investment Fund
An initiative of the Government of Barbados