

**SILVER LINING AMIDST THE CLOUDS FOR
BUSINESSES DURING THE COVID-19
PANDEMIC**

15 JULY 2021



CLIENT ALERT: SILVER LINING AMIDST THE CLOUDS FOR BUSINESSES DURING THE COVID-19 PANDEMIC



Author: Nur Fateen Zakariah
(fateen@naqiz.com)

It is clear the Covid-19 pandemic and the imposing of various forms of lockdowns since the onset of the Covid-19 outbreak early last year, have sent economic shockwaves across the globe. As severity of the Covid-19 pandemic in Malaysia continue to rise, many banking and financial institutions in Malaysia have expanded assistance for their customers to help them ride out the unprecedented financial challenge. The assistance is necessary as many businesses are severely affected especially after the Government of Malaysia (“Government”) extends another round of full lockdown until further notice.

The challenges businesses are facing in the midst of the Covid-19 pandemic include, among others, significant loss in earnings, strained cash flow, financing disruptions and increased health risk in continuing operations. The sooner an organization develops an effective strategy to navigate these uncharted waters, the better the chance it has in surviving the economic downturn.

However, there are silver linings amidst the clouds. It is often when faced with difficulties that one is pushed to seek ways to implement change that may not have been thought to be necessary during better times. Organisations that are navigating through this difficult time would have to diligently explore all available options and opportunities to eliminate the risk of closure. In cases where an organization is running the risk of default on payments of loans, more drastic measures may need to be considered to avoid actions by lenders and/or creditors.

The options available to organizations may vary depending on the degree of “stress” they are experiencing in the current economic conditions. In this, we attempt to explore the possible solutions for organizations facing financial challenges in light of the straining Covid-19 pandemic and the various support schemes made available by the Government with the support of the banking institutions.

a) Moratorium

Similar to the relief provided under previous economic stimulus packages, this time around, the Government under the latest Pakej Perlindungan Rakyat dan Pemulihan Ekonomi (“PEMULIH”), has again announced the implementation of moratorium for those affected by the Covid-19 pandemic and consequential lockdowns. In this regard, borrowers, whether individuals, microenterprises or SMEs, should be assured that opting in for the moratorium or any other repayment packages will be easy with no need for borrowers to provide supporting documentation. Approval will be given automatically. If a longer moratorium period is required, the individual/SME/corporation are at liberty to approach their banks to discuss alternative assistance.



b) Rescheduling and Restructuring of Loans

Prior to the implementation of the moratorium, banking institutions are known to provide reschedule and restructuring of loan services to its consumers, particularly to consumers facing severe and extreme financial difficulties. For this reason, such avenue has developed a negative connotation as a service for those have zero control over their finances. However, in these trying times and pressures of financial distress due to loan commitments may be relieved by way of debt restructuring or rescheduling and may be deemed as an important tool for organisations to help keep their businesses afloat.

Debt restructuring, a larger exercise of the two, involves extensive revisions of the loan facility's terms and conditions in order to improve the business' cash flow. On the other hand, rescheduling refers to the adjustment on the repayment terms which most commonly would result in a revision of the monthly instalment amount and extension of the loan tenure. Unlike debt restructuring, rescheduling does not significantly alter the principal terms and conditions of the terms of the facility.

Both exercises are able to improve business cash flow and at the same time allowing businesses to overcome financial difficulties and mitigate the risk of cease of operations or insolvency.

c) Debt Consolidation

However, in the case of multiple debt obligations, organizations may also opt for debt consolidation to help alleviate financial stress.

d) Other Government Incentives and BNM Measures

The Government has provided further assistance under PEMULIH stimulus package whereas BNM has allocated an additional RM2 billion financial support to SMEs and micro-enterprises through financial institutions.



To further assist SMEs, Syarikat Jaminan Pembiayaan Perniagaan Berhad ("SJPP") has increased the ceiling of its government guarantee scheme for 2021 by RM10.0 billion to RM36.5 billion. To further assist SMEs to obtain financing facilities, the Government will further increase the ceiling of the guarantee under SJPP by RM20.0 billion to RM56.5 billion

e) Management of Working Capital

The Wage Subsidy Programme was announced as part of the PRIHATIN Economic Stimulus Package to assure that two-thirds of the SME workforce will remain employed by assisting business to reduce overhead expenses. The same initiative will continue under PEMULIH whereby the Government will support up to 500 workers per employer with assistance of RM600 per worker for four months. There will be a payment for two months for all sectors in the Second Phase of the National Recovery Plan ("NRP"), and a further payment for two months for the sectors categorised under the negative list in the Third Phase of the NRP.

Unlike the previous wage subsidy programmes, there are no salary limit conditions for the Wage Subsidy Programme under PEMULIH. Hence, employers may apply even if their employees earn more than RM4,000 a month.

Organizations would benefit greatly out of the Wage Subsidy Programme as this would assist in managing its working capital and avoiding the probable need of down-sizing its organization.



Conclusion

The measures introduced by the government, though seemingly focused on a specific group and largely temporary, offer much needed support for businesses wading through unprecedented times. Ultimately, organizations should reassess their financial position and, amongst others, consider the impact of Covid-19 and/or the implementation of multiple forms of MCO on its businesses. In the event that the organization is unable to repay its debts, it should consider reviewing any force majeure provisions in its contracts, initiate conversations with creditors or financiers to discuss solutions moving forward to seek any corporate rescue mechanism or financial relief measures offered by the relevant financial institutions.

In the current climate, it seems that the financial institutions are willing and ready to provide support that are tailor-made to ease the financial burden of the affected group of consumers and businesses, therefore these organizations should also take proactive steps by approaching their banks to discuss solutions moving forward to minimise financial impact and where appropriate, consider alternative strategies to safeguard business operations and avoid the extreme route of closing down or liquidation.



NAQIZ & PARTNERS

Suite 9B.02, Level 10,
Wisma E&C,
Lorong Dungun Kiri,
50490 Damansara Heights,
Kuala Lumpur

+603 2095 1188
www.naqiz.com