

GUIDELINES

REVISED IN JUNE 2020



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1 BACKGROUND

- 1.1 The Government of Botswana is committed to citizen economic empowerment. This is evidenced by the various programmes and policies that have been put in place since Independence to encourage citizens and citizen companies to participate in the mainstream of the economy. These initiatives are outlined in the various National Development Plans and other policy pronouncements. Although they might not have been referred to as citizen economic empowerment policies or entrepreneurial development programmes they are, for all intents and purposes, solid citizen empowerment programmes.
- 1.2 The Government established the Citizen Entrepreneurial Development Agency (CEDA), in response to the recommendations from both the National Conference on Citizen Economic Empowerment (NCCEE), held in July, 1999 in Gaborone and the 4th Evaluation of the Financial Assistance Policy (FAP) which was completed in May 2000. Both reports of the NCCEE and the FAP Evaluation called for support for business development to promote citizen entrepreneurship, which was found lacking among a large majority of citizens. NCCEE also recommended that the citizen economic empowerment schemes be consolidated and the financial assistance be provided as loans.
- 1.3 Some of the existing citizen economic empowerment schemes include: Young Farmers Product, CEDA Credit Guarantee Scheme (CCGS), Entrepreneur Mortgage Assistance, Venture Capital Fund (VCF) and the Citizen Entrepreneurial Development Agency (CEDA) loan.
- 1.4 All these programmes have been operating in isolation with varied guidelines. This makes coordination and monitoring of performance of the various programmes cumbersome. It is on this premise that the new set of guidelines governing CEDA are developed. This will bring the different citizen economic empowerment programmes (including other business development services and products, such as insurance) under one umbrella and focus efforts to deal with the real financial constraints affecting the development of citizen businesses and citizen participation in the economy, as a “One Stop Service Centre”.
- 1.5 The Government is desirous of implementing a framework that recognizes CEDA as an empowerment entity with different financing products to address different needs and opportunities to the advantage of citizen enterprises.
- 1.6 CEDA will further foster entrepreneurship through financing projects which will not be ordinarily funded by other institutions such as commercial banks. These guidelines thus represent a consolidation of different products under CEDA.

- 1.7 CEDA is aware that other factors such as market access, access to technology, weak entrepreneurial skills represent major constraints to the development of citizen businesses. CEDA would continue to work towards addressing these constraints. Other stakeholders whose support is critical to the success of the development of citizen businesses and to the achievement of the CEDA mandate include the central government ministries and local authorities, parastatal organisations and other public entities through their procurement budgets.
- 1.8 It is expected that CEDA will access the money markets in putting together financing packages for qualifying business ventures, specifically for large scale venture capital projects.

2 PRIMARY OBJECTIVES

The objectives of CEDA are as follows:

- 2.1 The provision of funding for the development of competitive and sustainable citizen owned businesses and joint ventures operating both within and expanding outside the country.
- 2.2 Proactively initiate and coordinate the provision of funding packages from sources other than government such as DFI, international agencies, institutional funds, venture capital funds, and the commercial banking sector.
- 2.3 The assisted businesses, enterprises and citizens must contribute towards the objectives of economic diversification, employment creation, citizen economic empowerment, and poverty alleviation through development of sustainable citizen enterprises.
- 2.4 Foster citizen entrepreneurship and empowerment through encouragement of local entrepreneurial culture through funding.
- 2.5 Promoting the development of vertical integration and horizontal linkages between citizen enterprises and primary industries through effectively pursuing the business opportunities associated with the exploration and exploitation of natural resources.
- 2.6 Promote the consolidation of citizen firms, amalgamations and joint ventures as a means of growing the size of citizen business enterprises to enable them to compete more effectively with larger foreign owned companies.

- 2.7 Where appropriate, finance the establishment of Citizen Businesses in foreign markets to enhance their international competitiveness;
- 2.8 Support entrepreneurship development by exposing citizen entrepreneurs to a whole range of possible business financing packages including opportunities in the money markets and institutional investors;
- 2.9 Promote citizen economic empowerment through assisting to finance the acquisition of foreign owned businesses, or shares. In such businesses the entrepreneur (s) should be an active part in the management and operations of such businesses in an entrepreneurial role and not as a non-participating investor.
- 2.10 Improving access to international markets through cooperation including joint-ventures with foreign investors and investment in those markets through equity and credit guarantee schemes.
- 2.11 Foster youth enterprises in business through effective pursuit of opportunities in all sectors of the economy.
- 2.12 To provide mentoring, technical assistance and other appropriate support to CEDA funded enterprises.
- 2.13 To retain citizen investment in commercial/industrial property sectors and land.
- 2.14 To address the problem of access to finance by the SMMEs due to their inability to meet security requirements of commercial banks and other financial institutions through credit guarantee.

3 GUIDING PRINCIPLES

Citizen Entrepreneurial Development Agency (CEDA) is guided by the following principles;

- 3.1 Promote ease of entry into business by citizens of Botswana by tilting the playing field in their favour.
- 3.2 Promote viable genuine citizen businesses both within and outside the country that will benefit the economy of Botswana in a meaningful way.
- 3.3 Act commercially in all cases which will include understanding the needs of business at various phases of its development which might include restructuring and refinancing the business and as a last resort foreclosure;

- 3.4 As a rule, CEDA will only assist business ventures that are owner operated and where the entrepreneur takes an active role in the management and operation of the enterprise rather than in a non-participating role as an investor. CEDA reserves the right to waive this requirement, if in its assessment, proper management and experience to be put in the business are satisfactory.
- 3.5 The need to position local enterprises to deal with challenges posed by globalisation as well as take advantage of its opportunities. They would have access to new markets and source raw materials from anywhere in the World. Therefore, local firms should be prepared to face competition from all over the World and to compete in global markets;
- 3.6 The need to specifically focus on the development of viable, sustainable citizen owned business enterprises, through the provision of finance and of risk sharing.
- 3.7 The growth of the service sector provides challenging opportunities for entrepreneurs with the need to produce quality service at competitive prices to ensure sustained growth and employment creation in the country.
- 3.8 The need for technological support through acquisition and partnerships to gain competitive advantage by creating value, extending reach into foreign markets in particular and competing with large organizations on a level playing field.
- 3.9 The need for cost effectiveness by local businesses in order to manage new and complex external relationships to gain flexibility over foreign firms.
- 3.10 The need for niche marketing, which gives the opportunity to local businesses to successfully compete against foreign firms by identifying niche markets in the international market place.
- 3.11 The need for business to adapt to change and to meet market needs.
- 3.12 Fund the re-structuring or re-financing of a business enterprise where appropriate and where the underlying business operations are sound and the enterprise is a potentially viable and sustainable entity.
- 3.13 Foreclose on irredeemable business entity as a last resort in order to protect the assets of CEDA.

- 3.14 CEDA will not provide financing for speculative investment where the investor is not directly involved in the management and operations of an enterprise.

4 ELIGIBLE ACTIVITIES

- 4.1 CEDA provides financial assistance for all viable citizen enterprises and joint ventures in all activities of the economy

5 PRODUCT LINES

- 5.1 The following products shall be offered by CEDA:
- i. Loans
 - ii. Equity
 - iii. Credit Guarantee for short term and long term instrument, letters of credit, etc.
 - iv. Entrepreneur Mortgage Assistance
 - v. Financing packages and lines of credit involving both in-house CEDA funds and funds from the money markets, institutional investors or from facilities made available by external partners;
 - vi. The discounting/factoring of invoices to assist the cash flow of citizen businesses.
- 5.2 These products are subject to review and could change as and when need arises. The specific details of each product are available at CEDA offices.

6 FORM OF FINANCIAL ASSISTANCE

- 6.1 CEDA will provide financial assistance in the form of loans at subsidized interest rates. This is meant to be a soft window for citizen entrepreneurs wishing to start, acquire or expand business operations.
- 6.2 CEDA will, through the equity component, provide risk capital to citizen owned projects and joint ventures between citizens and foreigners and to buy into existing businesses. This will help relieve the equity capital constraint, which affects most citizen investors. CEDA will support medium and large ventures through the equity component.
- 6.3 CEDA will focus specifically on the development of viable, sustainable youth owned projects, through the development of entrepreneurial skills and access to funding.

- 6.4 CEDA would provide entrepreneurial, management skills, training and mentoring services to its beneficiaries, to equip them with requisite skills for running businesses thereby enhancing prospects for success.
- 6.5 CEDA will, through the Entrepreneur Mortgage Assistance mitigate the process by which citizen investments in land and commercial/industrial properties facing foreclosures by lending institutions are easily acquired by non-citizens. This would be by stepping in, upon application, to buy equity in citizen owned investment facing foreclosure, provided they meet laid investment criteria.
- 6.6 CEDA will allow citizen owned business experiencing management or technical problems to bring in joint venture foreign partner to inject capital in such an operation.
- 6.7 CEDA will provide access to finance by offering guarantees, letters of credits and performance bonds to, among others financial institutions, on behalf of SMMEs who could not meet the security required by commercial banks and financial institutions.
- 6.8 CEDA will provide financing for consolidation of loans only in cases where it is evident that the consolidation will add value through expansions as opposed to outright re-financing of loans.

7 CRITERIA FOR ASSISTANCE

CEDA products are available to:

- 7.1 Citizens 18 years and above for both start-up and expanding businesses
- 7.2 The purchase of equity share capital in existing registered foreign owned businesses. This will include:
 - 7.2.1 Risk capital finance to enable businesses to acquire other businesses.
 - 7.2.2 Management buy-outs and/or the acquisition of businesses or shares in existing businesses which are majority foreign owned through the financing of the acquisition of shares from the foreign shareholders.

- 7.2.3 Loan finance or combination of both loans and equity, depending on the financial viability as well as funding requirements. These are also subject to the promoters of the proposed large scale projects making a contribution from their own resources of not less than 10% of the project total cost. CEDA will take a minimum 26% and a maximum of 49% equity stake in the supported businesses up to a limit of P50 million.
- 7.2.4 Business finance packages involving internal CEDA resources and financing from commercial sources, other financing agencies both from within and from outside Botswana.
- 7.3 Citizens and joint ventures between citizens and foreigners under the equity component. This invests directly in a company by subscription of new shares [equity partner].
- 7.4 Citizen owned businesses with an annual turnover of up to P20 million. Assistance would be in the form of guarantees, letters of credit and performance bonds.
- 7.5 Citizen owned businesses facing foreclosure and seeking to re-finance mortgage loans for land, commercial and industrial property in exchange for share of equity in their businesses.
- 7.6 Viable expansions to existing registered majority owned citizen businesses in all sectors of the economy.

8 LEVEL OF ASSISTANCE

- 8.1 Micro Scale Projects:
 - 8.1.1 The support for projects under this category is reserved for 100% citizen owned projects.
 - 8.1.2 **Loan Limits:** The minimum size of the loan is P500 and the maximum is P300, 000 or a combination of financing products as appropriate.
 - 8.1.3 **Interest Rate:** An interest rate equivalent to the prevailing Bank Rate per annum will be charged on loans
 - 8.1.4 However, for special sectors [currently manufacturing, mining, construction, energy, technology and innovations, agriculture, creative industry and tourism] as may be selected by the Board

from time to time an interest equivalent to prime lending rate minus 3% per annum will be charged

8.1.5 **Repayment Period:** The repayment periods for loans up to P300, 000 will not exceed 84 months (7 years)

8.1.6 **Security/collateral requirements**

- i. Personal surety
- ii. Security over assets financed

8.2 Small Scale Projects:

8.2.1 The support for projects under this category is reserved for 100% citizen owned projects.

8.2.2 **Loan Limits:** The minimum size of the loan is P300, 001 and the maximum is P1,000, 000 or a combination of financing products as appropriate.

8.2.3 **Interest Rate:** An interest rate equivalent to the prevailing Bank Rate per annum will be charged on loans

8.2.4 However, for special sectors (currently manufacturing, mining, construction, energy, technology and innovations, agriculture, creative industry and tourism) as may be selected by the Board from time to time, an interest equivalent to the prevailing prime lending rate minus 3% per annum will be charged

8.2.5 **Repayment Period:** The repayment periods for loans up to P1, 000 000 will not exceed 84 months (7 years)

8.2.6 **Security/collateral requirements**

- i. Personal surety
- ii. Security over assets financed

8.3 Medium Scale Projects:

8.3.1 The support for projects under this category is reserved for 100% citizen owned projects.

8.3.2 **Loan Limits:** The minimum size of the loan is P1,000,001 and the maximum is P10 million or a combination of financing products as appropriate.

- 8.3.3 Interest Rate: The prevailing prime lending rate per annum will be charged on the loans
- 8.3.4 However, for special sectors (currently manufacturing, mining, construction, energy, technology and innovations, agriculture, creative industry and tourism) as may be selected by the Board from time to time, an interest equivalent to the prevailing Bank Rate per annum will be charged
- 8.3.5 **Repayment Period:** The repayment periods for loans are as follows;
- 8.3.5.1 Loans from P1,000,001 to P5,000,000 will not exceed 180 months (15 years)
- 8.3.5.2 Loans from P5, 000,001 to P10, 000,000 will not exceed 240 months (20 years)
- 8.3.6 **Security/collateral requirements:** For special sectors (currently manufacturing, mining, construction, energy, technology and innovations, agriculture, creative industry and tourism), and as may be selected by the Board from time to time, security requirements will be as follows
- i. Personal surety
 - ii. Security over assets financed
- 8.3.7 Security will be mandatory for loans over P5, 000, 000 with the exception of special sectors as per 8.3.6.

8.4 Large Scale Projects:

- 8.4.1 The support for projects under this category will be extended to either citizens owned companies or joint ventures with foreign investors/technical partners
- 8.4.1.1 **Loan Limits:** The minimum size of the loan is P10, 000, 001 and the maximum is P50 million or a combination of financing products as appropriate.
- 8.4.1.2 **Security:** Security will be mandatory for loans over P10, 000, 000 with the exception of special sectors as per 8.4.1.3

8.4.1.3 However, for special sectors (currently manufacturing, mining, construction, energy, technology and innovations, agriculture, creative industry and tourism), and as may be selected by the Board from time to time, security requirements will be as follows

- iii. Personal surety
- iv. Security over assets financed
- v. Additional security requirements may be discounted based on
 - a) Job creation
 - b) Economic diversification
 - c) location

8.4.2 **Interest Rate:** The prevailing prime lending rate per annum will be charged on the loans other than for those identified as special sectors

8.4.3 For special sectors (currently manufacturing, mining, construction, energy, technology and innovations, agriculture, creative industry and tourism), and as may be selected by the Board from time to time, an interest equivalent to the prevailing Bank Rate per annum will be charged to the loans

8.4.4 **Repayment Period:** The repayment periods for loans shall not exceed 240 months (20 years).

8.5 **Grace period:** this will not exceed 48 months and no interest would accrue during the grace period

9 OTHER PRODUCTS

9.1 Credit Guarantee for short term and long term instruments, letters of credit, performance bonds, invoice discounting etc..

9.1.1 The rate to be charged instruments at 9.1 will be determined by the Board from time to time as per the fees schedule published.

9.2 **Entrepreneur Mortgage Assistance:** There shall be no restrictions on the number of shares to be bought by the Agency. The Agency applies for diluted shareholding, without any prejudice on absolutely diluted shareholding.

- 9.3 **The equity component:** provides finance or a combination of both loans and equity, depending on the financial viability as well as the funding requirements of the project. However, the loan shall be extended on commercial terms with interest rates charged at prime commercial linked rates depending on the risk associated with the project up to a maximum of P50 million for a period not exceeding 20 years.

10 FEES

- 10.1 In line with common practice, CEDA may charge fees for certain services it renders, in order to effect partial cost recovery. The quantum of fees is determined by the Minister of Investment Trade and Industry on the recommendation of the CEDA Board of Directors from time-to-time. Fees may currently be levied for the following:

- i. Issuing of letters of support/guarantees in respect of procurement-related transactions.
- ii. Commitment fees in respect of medium and large loans. Such fees are levied for approved lines of credit which remain undisbursed for various reasons.
- iii. "Facility fee" component associated with invoice discounting transactions, revolving credit facilities
- iv. Appraisal fees, for medium and large transactions, to partially recover the costs associated with specialist/technical appraisal of transactions.
- v. Loan Application Handling Fee for medium and large loans
- vi. ITC enquiry
- vii. Called-Up Guarantees
- viii. Early settlement fees
- ix. Monitoring fees for medium and large loans
- x. Appeal Fees for medium to large loans
- xi. Any other fees as may be determined by the Board from time to time as part of cost recovery

Commitment fees cover the costs incurred in order to keep undisbursed portions of loan facilities available.

11 OTHER SPECIFIC REQUIREMENTS

- 11.1 The objectives of CEDA require a framework for specific requirements from citizens accessing the funds from CEDA. The overriding principle in the specific requirements is to identify and nurture a committed entrepreneur with a viable and sustainable business idea.
- 11.2 **Business Proposals:** To access assistance under the CEDA Fund applicants are required to submit business proposals and the projects need to demonstrate viability. Promoters are therefore required to submit a detailed business proposal.
- 11.3 **Security:** Security will be as shown by the different classes of loans as detailed above. However, the Board of Directors of CEDA shall have the authority to set and vary security requirements from time to time.
 - 11.3.1 Security requirements may be discounted for people with disabilities, youth and women in line with the risk profile of the project.
- 11.4 **Licenses:** Promoters are required to secure the necessary licenses and permissions for the proposed project as required by law prior to funds disbursements.
- 11.5 **Premises:** Promoters are required to secure necessary land and premises from which the project is to operate prior to funds disbursements
- 11.6 **Evaluation of proposals:** All project proposals will be evaluated to determine viability and justification for funding in line with the CEDA regulations.
- 11.5 **Viability:** Viability is evaluated according to the following criteria but not limited to; (a) management, (b) market, (c) projected profitability, (d) sustainability, and (e) anticipated growth of the business and economic impact.
- 11.8 **Agreements:** Promoters of approved projects are required to sign a loan or shareholders agreement with CEDA or other financiers as appropriate after having met all conditions of approval. The business plan and loan appraisal report documents form part of the agreement
- 11.9 **Compulsory Reporting:** Regular reports are required of all approved projects. The reports are to be produced for the duration of the loan to a standard acceptable by CEDA as may be determined by the CEDA Board from time to time, depending on the nature of the project. The cost of the reports shall be borne by the promoter.

- 11.10 **Willingness to be guided:** The project promoters must demonstrate willingness to be guided and developed as entrepreneurs both at pre and post funding.
- 11.11 **Number of Loans:** The number of loans that an individual qualifies for will be determined by the total potential exposure of that individual as outlined in the CEDA Credit Policy.
- 11.12 **Management:** The project should be full time owner-managed. CEDA reserve the right to waive this requirement, if in its assessment, proper management and experience to be put in the business are satisfactory.
- 11.13 **Project Location:** The location of the project must be suitable for the business to be carried out.
- 11.14 **Fronting/Misrepresentation:** There will be stiff penalties for fronting/misrepresentation of any kind as set by the Board of Directors of CEDA from time to time, which could include prosecution should it be discovered that the project being funded or to be funded is or was not effectively citizen-owned and citizen controlled, or fronting for another citizen, on application for assistance.
- 11.15 **Contributions:** Promoters or project sponsors are required to contribute towards the project cost as equity or owner's contribution to show some commitment and confidence in the project as well as to lighten the burden of repayment. The contribution may be in cash or in kind or a combination of both. In the case of equity funding contribution is as per the conditions set out in this document.
- 11.16 **Repayment periods:** will remain at the discretion of CEDA according to the nature and size of the loan and projected cash flows but shall not exceed 20 years.

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