

# **THE CEDA CREDIT GUARANTEE SCHEME**

## **Background**

Efforts by the Government of Botswana to develop the SMME sector are, among other initiatives, being channelled through the **CEDA Credit Guarantee Scheme (CCGS)**.

The CCGS is reviewed continuously in order to realign the objectives of the scheme to the changing challenges faced by SMMEs. This includes addressing the problem of lack of access to finance by the SMMEs due to their inability to meet security requirements of commercial banks and other financial institutions. From its inception as the Credit Guarantee Scheme (CGS) in 1999, the scheme has been managed by BECI – a role which has now been transferred to CEDA, with effect from 1 April 2008.

The CCGS brings together three parties - CEDA, the Participating Banks and the borrower. The approach was borne from the realisation that SMME development cannot be the sole responsibility of the Government, and that commercial banks as well as development financial institutions continue to be the key players in this SMME development endeavour.

## **The Participating Banks (the Banks)**

The following banks participate on the scheme:

1. Barclays Bank Botswana
2. Standard Chartered Bank Botswana
3. Bank of Baroda
4. Stanbic Bank Botswana
5. First National Bank Botswana
6. National Development Bank
7. Bank Gaborone

## **The Role of CEDA**

- i. Receives and assesses guarantee applications from the Banks, and approves or not approve such guarantee applications.
- ii. Offers guarantees to the Banks on successful applications, and then receives periodic reports from the Banks on the performance of the guaranteed loans.
- iii. Monitors the performance of the loans, the recoveries from defaulting Borrowers, and, receives, assesses and pays claims submitted by the Banks.
- iv. Monitors the progress of the CCGS, as well as decide on its future.

## **The Role of the Banks**

- i. Receives loan applications for funding for projects from the Borrowers, in their normal course of business, which they assess according to their normal lending criteria.
- ii. Satisfy themselves with the commercial viability of the projects, and, when the security offered by the borrower is found short of the Bank's normal lending requirements, the Bank then submits a guarantee application to CEDA under the CCGS.

## **Conditions of the Scheme**

### **1. Who qualifies under the CCGS?**

The scheme targets citizen owned SMME's (small, micro and medium enterprises) with an annual turnover of up to P7million.

### **2. Activities covered under the scheme**

All types of lending are covered under the CCGS.

### **3. Facilities range**

The facilities considered under the CCGS range from P10, 000 to P2million.

### **4. Security provided by the Borrower**

The Banks will first consider the Borrower's available assets as security, and if the security offered by the Borrower is found to be inadequate/short, then the Bank can make an application to CEDA requesting for cover under the CCGS.

### **5. Guarantee Cover**

CEDA provides a guarantee of 75% of the net loss incurred by the Banks as a result of their lending.

### **6. What is the cost to the Borrower?**

#### **a) Guarantee Fee**

A guarantee fee of 1.5% (one and half percent) on the loan amount is payable annually in advance by the Banks, who would then recover it from the Borrowers.

#### **b) Arrangement / Administration Fee**

The banks charge their borrowers an amount which they normally charge for their normal lending, i.e. Loans outside the CCGS.

#### **c) Interest Rate**

The banks charge a preferential interest rate not exceeding prime plus two.

### **7. Loan Term**

The loan term is negotiated and agreed the bank and the borrower.

### **8. What happens if the borrower fails to repay the loan?**

The bank realises it's security and takes the necessary action to recover the balance of the debt from the borrower. If this still leaves some balance, CEDA pays 75% of the net loss but legal action against the borrower may continue so as to recover the balance owed.