

**CITIZEN ENTREPRENEURIAL
DEVELOPMENT AGENCY**

REVISED GUIDELINES

September 2008

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 Fund (YFF), CEDA Credit Guarantee Scheme (CCGS), Citizen Entrepreneur Mortgage Assistance Equity Fund (CEMAEF), 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. 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.

- 1.6 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.
- 1.7 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.
- 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

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

5. PRODUCT LINES

The following products shall be offered by CEDA:

- Loans
- Equity
- Credit Guarantee for short term and long term instrument, letters of credit, etc
- Citizen Entrepreneur Mortgage Assistance Equity
- 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;
- The discounting/factoring of invoices to assist the cash flow of citizen businesses.

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 Citizen Entrepreneur Mortgage Assistance Equity Fund (CEMAEF), 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 15% of the project total cost. CEDA will take a minimum 20% and a maximum of 49% equity stake in the supported businesses up to a limit of P30 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 Small/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 P500.00 and the maximum is P500, 000.00.

8.1.3 Interest Rate: An interest rate of 5% will be charged on the loans.

8.1.4 The repayment periods for loans up to P500 000 will not exceed 60 months

8.2 Medium Scale Projects:

8.2.1 The support for projects under this category is reserved for 100% citizen owned projects. In exceptional circumstances, usually linked to market access and/or the acquisition of technology or expertise, consideration will be given to joint ventures under this category;

8.2.2 Loan Limits: The minimum size of the loan is P500, 000.00 and the maximum is P4 million or a combination of financing products as appropriate;

8.2.3 Interest Rate: An interest rate of 7.5% per annum will be charged on the loans.

8.2.4 **Repayment Period:** The repayment periods for loans are as follows;

8.2.4.1 **Loans** from P500 001 to P2, 000 000.00 will not exceed 120 months.

8.2.4.2 Loans from P2000 001 to P4, 000 000.00 will not exceed 180 months

8.3 Large Scale Projects:

The support for projects under this category will be extended to either citizens owned or joint ventures with foreign investors/technical partners

8.3.1 Loan Limits: The minimum size of the loan is P4, 000, 001 and the maximum is P 30 million.

8.3.1 Security: Security will be mandatory for loans over P4, 000, 000.00.

8.3.2 Interest Rate: A prime linked interest rate per annum will be charged on the loans depending on the risk associated with the project.

8.3.4 Repayment Period: The repayment periods for loans shall not exceed 180 months.

8.3.5 OR a combination of financing products using both CEDA internal resources and funding packages involving other financiers;

- 8.4 **Grace period:** this will not exceed 48 months and no interest would accrue during the grace period.
- 8.5 **Entrepreneur Mortgage Assistance:** there shall be no restrictions on the number of shares to be bought by the fund. The fund applies for diluted shareholding, without any prejudice on absolutely diluted shareholding.
- 8.6 **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 P30 million for a period not exceeding 15 years.

9. CEDA APPEALS STRUCTURE

There shall be an Appeals Committee appointed by the Minister of Finance and Development Planning for a defined period to oversee CEDA Appeals and shall be called "CEDA Appeals Committee". The Committee shall be composed of a business specialist, a legal person to advice on legal issues, a representative from the private sector and two additional members one of which must have an accounting background. The Chairperson of the Committee would be selected from the Committee members and the Secretariat could either be from MFDP, the Employment and Manpower Planning Section or any other suitable organization.

10. OTHER SPECIFIC REQUIREMENTS

- 10.1 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.
- 10.2 **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.
- 10.3 **Security:** All assets financed by CEDA are automatically used as security by CEDA. In addition, where there are no fixed assets funded by CEDA or CEDA funded assets do not provide adequate security; promoters are required to pledge other properties or assets as security or to sign personal guarantees or sureties in lieu of such securities. However, the Board of Directors of CEDA shall have the authority to set and vary security requirements from time to time.

- 10.4 **Licenses:** Promoters are required to secure the necessary licenses and permissions for the proposed project as required by law prior to funds disbursements.
- 10.5 **Premises:** Promoters are required to secure necessary land and premises from which the project is to operate prior to funds disbursements.
- 10.6 **Evaluation of proposals:** All project proposals will be evaluated to determine viability and justification for funding in line with the CEDA delegation arrangements.
- 10.7 **Viability:** Viability is evaluated according to the following criteria; (a) management, (b) market, (c) projected profitability, (d) sustainability, and (e) anticipated growth of the business.
- 10.8 **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.
- 10.9 **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.
- 10.10 **Willingness to be guided:** The project promoters must demonstrate willingness to be guided and developed as entrepreneurs.
- 10.11 **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**.
- 10.12 **Management:** The project should be full time owner-managed.
- 10.13 **Project Location:** The location of the project must have been approved **in accordance with requirements of the relevant authorities** e.g. for Young farmers loans the Ministry of Agriculture extension services.
- 10.14 **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 prosecution¹, should it be discovered that

¹ To this end consultations will be made with the relevant authorities to make fronting a criminal offence.

the project being funded is or was not effectively citizen-owned and citizen controlled on application for assistance.

- 10.15 **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 page 6.
- 10.16 **Repayment periods:** will remain at the discretion of CEDA according to the nature and size of the loan and projected cash flows but not exceed 15 years.