



REPUBLIC OF BOTSWANA

**CITIZEN ENTREPRENEUR MORTGAGE ASSISTANCE EQUITY
FUND (CEMAEF)**

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1. BACKGROUND

Government is committed to citizen economic empowerment as evidenced by a number of programmes and policies that have been put in place since Independence to encourage citizens to participate actively in the main stream of the economy. These programmes and Government policies are outlined in the various National Development Plans and Policy documents. Although the programmes and policies were not specifically referred to as citizen economic empowerment policies, or citizen entrepreneurial development programmes, they are, to all intents and purposes, solid citizen economic empowerment tools. Some of the programmes and policies are based on the recommendations of Government Paper No.2 of 1982 on National Policy on Economic Opportunities, which defined economic opportunities as a process by which *“each Motswana has to utilise Botswana’s national resources to improve his living standard by his own effort”*

2. Furthermore, the National Vision 2016 suggests that "there will be partnership arrangements between local and foreign investors that will have empowered citizens and developed investment, and substantially increased resource ownership and management by citizens".
3. Some of the existing citizen economic empowerment schemes include: Localization Policy, Financial Assistance Policy (FAP), Micro Credit Scheme of Small, Medium and Micro Enterprises (SVIME) Policy, Credit Guarantee Scheme, Reservation Policy, Central Tender Board preferences, Local Procurement Programme, and Arable Lands Development Programme.
4. Recently Government approved the establishment of the Citizen Entrepreneurial Development Agency (CEDA), which will consolidate some of the existing schemes, notably FAP and SMME, as well as some future citizen economic empowerment schemes, in order to promote citizen participation in the economy. Its mandate will be to manage and monitor some of Government's financial and technical assistance schemes to Batswana wishing to go into business or to expand existing businesses.

II. INTRODUCTION

5. While both Government and markets play an indispensable role in economic development, it has been found necessary sometimes for Government to intervene in markets as they are not always perfect or competitive and sometimes fail in meeting the objectives of social justice and citizen economic empowerment.
6. Government has over the years provided short term to medium term assistance to citizen investors in different sectors of the economy, who are faced with special difficulties as a result of disasters or depression of markets. The latest example is the Citizen Construction Industry Fund (COIF), which was established in 1997/98 to assist citizen construction companies to recover from the depression in the construction market of the early nineties. The Fund provided loans to citizen contractors at an interest rate of 9% per annum.

The other scheme was the mortgage interest-subsidy that was extended to homeowners in 1996, who had borrowed from and were experiencing difficulties in repaying the Botswana Building Society. The interest-subsidy applied was a reduction in the rate of interest by 3% retroactively from 1st April, 1993 to 31st December, 1995. This had the effect of reducing outstanding loan balances for all eligible residential mortgages by 8%,.

7. Some citizen investors in the property market are currently faced with a problem of loan foreclosures from lending institutions, resulting mainly from the depression of the real estate market in the mid-nineties. In the process, some properties are being bought by unintended non-citizen beneficiaries. This undermines Government's efforts to empower citizens, particularly in the property market. In his address to the First Session of the Eighth Parliament in 1999, His Excellency the President indicated that Government would be assessing the feasibility of using the balance of the Citizen Construction Industry Fund (CCIF) to acquire shares in citizen-owned immovable property or land to prevent such real estates falling into the hands of non-citizens.
8. Government is therefore offering financial assistance on commercial lines to qualifying and eligible citizens or wholly citizen owned companies in order to help retain their ownership of business properties in Botswana through the Citizen Entrepreneur Mortgage Assistance Equity Fund (CEMAEF). It is the intention of Government to take advantage of the resources on hand, that is, the balance of the CCIF, which currently stands at P52 million (as at end of February 2001), to fund the scheme. As indicated at paragraph 10 below, in future consideration will be made to merge CEMAEF with the Privatization Trust Fund or any other citizen empowerment schemes, such as CEDA.

III. OBJECTIVES OF CEMAEF

9. The objective of the Citizen Entrepreneur Mortgage Assistance Equity Fund (CEMAEF) is to mitigate the process whereby citizen investments in commercial/industrial properties and land facing foreclosures by the lending institutions are easily acquired by non- citizens. It is therefore not the objective of CEMAEF *per se* to insulate citizen investors in the commercial/industrial property sector from foreclosures. What the Fund will do is that, if citizen investments are facing foreclosure, it will step in on application to buy equity in such businesses, provided they meet the investment criteria of the Fund.
10. The objective of CEMAEF is similar to that of the *Trust Fund*, which is to be established under the *Privatisation Policy for Botswana*, which is to warehouse shares in privatised entities for later sale to citizen individuals or companies. Indeed consideration will be given to merging the two funds once the latter is operational.
11. As an equity investment Fund, CEMAEF will cover investments with the potential to turn-around and be profitable. To achieve this objective, the Fund will evaluate each investment application *inter- alia* to determine its potential to improve. The valuation will also ensure that the Fund buys shares at fair market prices.
12. The Fund will buy any number of shares in the company, even where the principal shareholding is completely diluted, for as long as the business has the potential to be profitable and there is a possibility that the business could be bought by foreign interests.

IV. GUIDELINES FOR CEMAEF INVESTMENT

13. The Fund will be operated on strict commercial lines as equity Fund and as such will not extend any grants or soft loans. All applications must demonstrate financial viability. Botswana Development Corporation which will manage the Fund on behalf of the Board of Trustees will undertake the appraisal of all applications; and will submit recommendations to the Board of Trustees who will take final decision on each application. In broad terms, CEMAEF guidelines provide that:
 - (a) Citizen investment must be facing foreclosure by the lending institutions.

- (b) Investment facing foreclosure must be in the commercial or industrial property or land sectors.
- (c) There must be potential for a rapid rehabilitation of the financial performance of the *Approved Business* after the capital restructuring by the Fund.
- (d) An approved business should demonstrate the history of making efforts to meet debt obligations to its creditors.
- (e) An approved business must demonstrate adequate management, including proper keeping of records (financial and otherwise) and such management must be approved by the Manager of the Fund.
- (f) Upon receipt of an application by a prospective business, BDC will cause an evaluation to be undertaken by competent experts in accordance with Investment Guidelines and make recommendations to the Board of Trustees of the Fund.
- (g) Once an application is approved by the Board of Trustees of the Fund in principle, BDC will then negotiate terms and conditions of an Investment Agreement with the *Approved Business*. The execution of such Investment Agreement shall be a condition precedent to any investment being effected by the Fund.
- (h) In the event that an *Approved Business* does not hold its property in a limited liability company, the Investment Agreement shall provide for incorporation of such business and the issuance of shares to the *Approved Business* and the Trust.
- (i) Once the Fund has acquired shares in an investment, it will later sell such shares to citizen individuals and/or companies. However, Investment Agreements shall include provision allowing for reacquisition of shares by the original shareholder(s).
- (j) The Trust will participate only in property (including land) companies, as opposed to operating companies i.e. manufacturing and trading entities. Therefore, owner-occupied properties (for manufacturing and trading businesses), will be incorporated into new property companies (similar to properties owned by individuals in their personal capacities) to be eligible for assistance under the Fund.

V. MANAGEMENT OF CEMAEF

14. Since CEMAEF will acquire shares in qualifying citizen companies, which will later be sold to citizens, it will be registered as a *Trust*. The Trust will be managed by the Botswana Development Corporation under a Management Agreement entered into with the Board of Trustees of the Trust. The Corporation will provide staff, office accommodation and information technology facilities, including computer software to perform its functions in terms of the Management Agreement.
15. BDC will be paid fees by the Fund Board of Trustees for its services in accordance with the Management Agreement as may be agreed between BDC and the Board. The Board of Trustees will comprise of eleven members drawn mainly from the business community.

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