

THE AGRO ENERGY FUND – CONCEPT AND CRITERIA DOCUMENT

In order to address alternative energy sources in the sector, the Department of Agriculture, Land Reform and Rural Development (DALRRD) has established the Agro-Energy Fund at the Land Bank. A grant contribution of R500 million will be made available by DALRRD which will require matched funding from the Land Bank. This is a blended finance instrument where DALRRD will provide a grant on a sliding scale per producer category combined with a loan from the Land Bank.

The focus of the Agro-Energy Fund is on energy intensive agricultural activities. These include irrigation, intensive agricultural production systems and on-farm cold chain related activities. The blended thresholds and caps per category of producer are as follows:

- **a Large-scale producer and mega commercial producer:** will receive 30% grant funding to be matched with a 70% loan portion, where the grant amount is capped at the maximum of R1.5 million;
- **a Medium-scale producer:** will receive a 50% grant to be matched with a 50% loan portion, where the grant is capped at the maximum of R1 million; and
- **a Smallholder producer:** will be supported by a grant portion of 70% to be matched with a 30% loan. For this category, the maximum grant funding is capped at the maximum of R500 000.

A Smallholder Producer: Is defined as a venture undertaken by an individual or business entity for the purpose of household consumption and deriving a source of income from agriculture, forestry and fisheries activities along the value chain. The annual turnover is ranging from R50 001 – R1 million per annum.

A Medium Scale Commercial Producer: Is defined as a venture undertaken by an individual or entity for the purpose of deriving a source of income from agriculture, forestry and fisheries activities along the value chain. These are established enterprises with an annual turnover ranging from R1 000 001 – R10 million.

Large Scale Commercial Producer: Is defined as a venture undertaken by an individual or entity for the purpose of production and sale of agriculture, forestry and fisheries products to make a profit. These are established enterprises with an annual turnover ranging between R10 000 001 – R50 million.

Mega Commercial Producer: Is defined as a venture undertaken by an individual or entity for the purpose of production and sale of agriculture, forestry and fisheries products to make a profit. These are established enterprises with an annual turnover above R50 million.

Part time producer: refers to a Producer/Applicant who works on a part-time basis and derives less than 80% of his/her income from the farm.

Full time involvement - In the case of entities with more than one Director, one of the Directors if operating the entity on a full-time basis is able to fulfil the full-time involvement requirement. The Director operating the business on a full-time basis must not be a minority shareholder in the business and must have decision making and voting rights. At the minimum, we can consider equal shareholding by Directors and above. The Director who is operating the business full time must have the requisite business and/or technical skills to manage the business. For new entrants where training and capacity building is required, proof of appointment of a mentor must be in place prior to the disbursement of funds.

- **Sureties:** for entities with more than one Director, all Directors (operational and non-operational) will need to sign surety for the loans taken up by the registered entity in-line with our policies.
- **Co-applicants:** Non-farming income or asset contributions from Directors (operational and non-operational) can be considered for repayment ability purposes and as part of enhancing the collateral on a deal where applicable and required.

Co-applicants – A co-applicant that works for a government or state-owned entity or any entity under the exclusions list will result in the application not qualifying given for Land Bank as per our policies the Applicant and Co-applicant are treated as one applicant. ****NB – Check upfront if co-applicant is not part of the exclusions list. For the avoidance of doubt, entities that have more than one Director (i.e. operational and non-operational directors) where full time involvement has been fulfilled at entity level, do not fall under the part time producer exclusion.**

Table I: Grant Limits

Farmer Categorization	Smallholder Producer	Medium Scale Producer	Large Scale Producer	Mega Commercial Producer
Turnover	>R50k -R1m	>R1m-R10m	>R10m <R50m	>R50m
% Grant of the Cost (valid Quotation)	70%	50%	30%	30%
Land Bank Loan Component	30%	50%	70%	70%
Maximum Grant Caps	R500 000	R1m	R1.5m	R1.5m

The Grant caps will be according to Table I above, however the cost of the infrastructure needed by the farmer will be informed by the farmer's farm energy requirement assessment based on the kilowatts. The pre-assessment by a competent expert registered with the South African Photovoltaic Industry Association (SAPVIA) will be key so that the correct fit for purpose system is installed and to avoid dealing with fly by night dealers or unregistered dealers. If a farmer wants to do a self-audit, the most basic first step is to walk around the farm, noting the energy flows for each building and piece of equipment. Energy flows on farms vary from enterprise to enterprise, but most can be identified around the common high energy-consuming activities in the Agriculture Sector.

GRANT BUDGET ALLOCATIONS

The grant contribution of R500 million from DALRRD is preliminary allocated to the producer categories as per the below table:

Farmer Categorization	Smallholder Producer	Medium Scale Producer	Large Scale Producer and Mega Commercial Producer
Grant - Budget Allocations	R100 million	R200 million	R200 million

PRICING

For the Land Bank loan component, pricing will be market related and based on the Bank's cost of funds and in accordance to the approved pricing process that is communicated from time to time.

SCOPE OF THE FUND

The Blended Agro-Energy facility will be used by qualifying producers for the purchase of capital equipment and infrastructure (“CAPEX”) for alternative energy sources directly linked to energy-intensive farming operations.

QUALIFYING CRITERIA

- To be eligible, an applicant must be applying to implement an energy efficiency project or to implement a project that partially offsets electricity from the grid through self-use renewable energy;
- Only one application per entity or applicant will be considered;
- No debt takeovers; debt settlements or refinancing;
- South African citizens with a valid ID and/or registered business entity;
- Must be 18 years and above;
- The Applicant must be operating an agricultural business at the primary or secondary level;
- Applicants must demonstrate the capacity to utilize the energy requirements applied for;
- The grant will not be eligible to fund any alternative energy project or transaction on a stand-alone basis BUT will always be utilised to blend with a loan from the Land Bank. Furthermore, the grant cap per category may not be exceeded, however, depending on the businesses’ ability to afford a loan, the loan component may exceed the threshold stated;
- Smallholder, medium-scale, large-scale and mega commercial producers as defined;
- Producers involved in energy-intensive farming enterprises including on-farm cold chain related activities;
- Proof of land ownership or proof of access to land (E.g. Leases or PTOs – must be aligned to the term of the loan at the minimum);
- Allocation to prioritize Women, Youth, People with Disabilities and Military Veterans;
- Co-funding by development finance institutions (DFIs), equity participants, private sector grants, other debt or equity programmes for the same purpose and project (i.e. sharing risks) is allowed if it forms part of the total project proposed. The process will be handled in-line with Land Bank policies and procedures;
- Producers meeting the Credit policy, procedures and processes of the Land Bank; and



- Product offering and product terms for the Agro-Energy Fund to be guided by the Land Bank Product Manual.

REQUIREMENTS

- Operating entities - Financial statements for the last three years as a minimum if operating for more than 3 years (if available);
- New entrants – will be assessed in-line with the cash flow projections of the proposed business;
- Business Plan demonstrating the impact of the funding support on the businesses' operations and cash flow projections of at least 24 months;
- All the normal Land Bank requirements for the blended Agro Energy facility will apply;
- Feasibility or energy expert report outlining the energy requirement and significant energy uses of the farm. The feasibility or energy expert report must include the Infrastructure design;
- For existing entities proof of historical energy consumption (three months municipality bill or equivalent) and for new entrants as per the energy expert requirements report;
- Environmental authorisations (EIA/EA) where applicable in terms of the regulations (an EIA is not required for ground mount systems below 10MW and with a physical footprint of less than 1 ha. Rooftop systems, floating PV on dams etc. do not require EIA as they are on existing infrastructure. However, if the installations require activity clearance of vegetation or working off a watercourse might trigger the need for an EIA);
- A generation license from NERSA where applicable in terms of the regulations;
- Health and Safety requirements to be complied with;
- Quotations for Capex requirements: Specifying the aftercare service, warranties and lifespan;
- Project implementation plan;
- Certification of the service provider of choice as a qualified entity/individual for installation registered with relevant competent authorities e.g. South African Photovoltaic Industry Association (SAPVIA) <https://www.sapvia.org.za/members-service-directory/> for the solar energy industry; as well as other similar bodies for the various other energy solutions that the fund will consider; and
- Technical support pre and post installation: The technical support will be used to obtain certification or confirmation that the installations meet the requisite standards and requirements. Potential industry collaborations and partnerships are currently being explored. Section be updated during the course of implementation when the partnerships are concluded and the Project Development Facilitation Unit (PDFU) will communicate the process to be followed.

WHO DOES NOT QUALIFY

- Foreign nationals, dual citizenship, and illegal immigrants;
- Employees of government & State- Owned Entities (24 Months cooling period);
- Politicians in public office (12 months cooling period);
- Politically Exposed Persons posing a reputational risk as identified through the credit provider's lending policies, including but not limited to Anti-Money laundering risk management and compliance policies;
- *Part-time producers (regardless of a farm manager being in place or to be employed);
- Distressed producers;
- Non- agricultural businesses;
- Double dipping applications (If already benefited from other energy government programmes); and
- Off-farm processors (Industrialists).

TARGETED COMMODITIES

The specifically targeted commodities to be supported are poultry, dairy, piggeries, all irrigated commodities and on-farm processing.

Table 2: Common high energy consuming activities at the farm level

Dairy Farming	Piggeries	Poultry	Field Cropping	Horticulture including (Greenhouses)
Milk cooling machinery	Heating	Lighting	Cold Storage	Cold Storage
Lighting	Ventilation	Feeding machinery	Irrigation	Irrigation
Milking machinery	Lighting	Ventilation		Ventilation
Feeding machinery	Feeding machinery	Heating		Lighting

NB: the list is not exhaustive

Technical Expertise

- To enable speedy assessment and decision making on applications it is important that applicants make use of service providers that are accredited or certified by the relevant industry organizations to ensure reliance on the proposed solution, quotation, warranties etc. This will limit the need for validation of the solution in question. The relevant industry organizations will be engaged to gain alignment on this

matter and to ensure that they have sufficient checks and balances in vetting their members and have consequence management for those who do not adhere to ethical conduct. In future this aspect maybe handled by the partnership collaborations that are in the process of being explored by the Bank, in the meantime clients are required to address this component when submitting applications to the Bank.

- There needs to be post – installation validation to confirm that the energy solution financed and installed is the correct one, it meets the specifications in line with the feasibility expert report determining the energy requirements and the energy needs of the farm as well as the infrastructure designs (e.g. Panel of Service Providers or through digital partnership collaborations etc.).

Process Flow

- Application received by Land Bank and pre-screened (business plan /profile, energy expert report, quotation, criteria, etc.) for qualification;
- Due diligence process ensues;
- Credit approval process;
- Contracting;
- Disbursement; and
- Monitoring.

** The above to be guided by a detailed process flow that governs the Agro Energy Fund implementation process.

Disclaimer:

- Due to limited funds, applicants may not be funded in accordance with their funding requests (to be subject to availability of funds).
- Submission of the application does not guarantee approval.
- There shall be no right of appeal against an unsuccessful application.
- The applicants grant consent to the Land Bank and DALRRD to verify their details and information in so far as it relates to their respective applications.

Conditions to be imposed

Solar	Biogas/ Anaerobic digesters	Biomass (Agricultural crops)
<ul style="list-style-type: none"> ▪ Feasibility/an expert report determining the energy requirement and energy uses of the farm. ▪ Environmental authorisations (EIA/EA) where applicable and required. ▪ A generation license from NERSA where applicable and required. ▪ Health and Safety requirements. 	<ul style="list-style-type: none"> ▪ Feasibility report determining the energy requirement of the farm. ▪ Environmental authorisation Basic assessment /environmental impact assessment (EIA). ▪ Municipal consent of use licence, granted by municipalities, allows biogas plants to be built and operated. ▪ Waste management Licence. ▪ Water use licence. ▪ A generation licence from NERSA for projects outside the REIPPP have to get approval from the Department of Energy. (Generation capacity exceeding 1MW). ▪ Grid connection and transmission agreements, Agreements obtained from Eskom if the connection is subcontracted. ▪ Wheeling agreement into the national grid. ▪ Wheeling agreement with the involved municipality. 	<ul style="list-style-type: none"> ▪ Feasibility report determining the energy requirement of the farm including the Environmental impact assessment (EIA). ▪ Municipal consent of use licence, granted by municipalities, allows biomass generators to be built and operated. ▪ Waste management Licence. ▪ A generation licence from NERSA for projects outside the REIPPP have to get approval from the Department of Energy. ▪ Grid connection and transmission agreements, Agreements obtained from Eskom if the connection is subcontracted. ▪ Wheeling agreement into the national grid. ▪ Wheeling agreement with the involved municipality. ▪ Air emissions license.
Infrastructure Design	Infrastructure Design	Infrastructure Design
Quotations for Capex requirements: Specifying the after-care service, warranties, lifespan.	Quotations for Capex requirements: Specifying the after care service, warranties, lifespan.	Quotations for Capex requirements: Specifying the after care service, warranties, lifespan.
Certification of the service provider as a qualified entity for installation registered	Certification of the service provider as a qualified entity for installation registered with relevant competent authorities.	

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“Energy Performance Certificates, SANS 1544”: As published in the Government Gazette on 8 December 2020, energy performance certificates are now mandatory for the private sector, non-residential buildings with a total net floor area of more than 2 000 sqm, and government buildings of more than 1 000 sqm. The certificates must be displayed at the building’s main entrance and submitted to the SANEDI. **With the law now in effect, building owners are required to obtain an energy performance certificate within two years.** As of November 2022, only 12 South African National Accreditation Systems (SANAS) were accredited inspection bodies, who with Energy Supply Contracting (ESCos) will need to service the ~200k buildings requiring evaluation in this period. Despite the deadline set for December 2022, only 450 certificates had been issued by October 2022. It is implied that applicable buildings that do not comply by this deadline date will be **liable for a fine of up to R5 million.** However, there has been little indication of enforcing this and the DMRE is considering extending the deadline.”

“Electricity Regulation Act 4 of 2006” as amended by the Electricity Regulation Amendment Act 28 of 2007 (ERA). These regulations guide the issuance of licences for generators and transmitters, wheelers, and distributors of electricity. In 2021, Schedule 2 of the ERA was amended to increase the threshold for embedded generation from the current 1 MWp to 100 MWp without needing a generation licence from NERSA. As of December 2022, the threshold has been removed entirely. The requirement remains of registering embedded generation systems and applying for grid connections with the relevant distributor (municipality or Eskom).

Producer Categorisation Process – Land Bank

- **The categorisation of producers will only be done at Applicant level (i.e. entity or client that is applying for the AEF) and will not include the Co-Applicant who is added to the transaction to assist with repayment ability (where applicable and required for structuring of the transaction).**

1. Existing Operating Businesses

- **Business operating for more than 3 years:** Use a 3-year average historical turnover from latest annual financial statements to categorise the producer. **E.g. Company with a year-end of February 2022:** Use 2020, 2021 & 2022 figures and **Company with a year-end in December 2022:** Use 2019, 2020 and 2021 figures where applicable and available.
- **Business operating for 2 years:** Use 2-year average historical turnover from latest annual financial statements to categorise the producer.
- **Business operating only for 1 year:** Use the 1-year turnover from latest annual financial statement to categorise the producer.

- 2. Greenfields/Start-ups/Entities with no historical financial information/ Subsistence farmers (Turnover < R50K) –** will be categorised using the turnover that will be obtained from the internal assessment tool/s (e.g. BF90 or cash flow tool) that utilises the Land Bank agricultural norms.

**** NB – This categorisation methodology will be applicable for all cases where we are not able to determine the producer category from historical financial information.**

Additional Guidance on Exclusions

- I. Spouses or family members of government or SOE employees are not excluded under AEF as long as they are a sole director in the applying entity and the government or SOE employee is not going to be added as a Co-applicant to the transaction.
 - According to Land Bank policies the Applicant and Co-applicant are treated as one therefore the exclusion under AEF will kick in, this means if the government or SOE employee is added as a Co-applicant to the transaction.