



## LAND BANK/JOBS FUND MEZZANINE AGRI FUND

### **Disclaimer**

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### **1. PURPOSE**

- Land Bank and the Jobs Fund have contracted to implement a Mezzanine Fund to support development and job creation in majority Black owned enterprises in the agricultural sector through offering senior and mezzanine debt to projects that create new productive capacity and new jobs. Accompanying funding for insurance purposes and funded business support is also available.
- This document is for background and information purposes only (refer disclaimer above).
- For further information, please feel free to contact the following persons at Land Bank:

Sunil Kooverjee - Specialist: Partnership Funds Management Unit

[SGKooverjee@Landbank.co.za](mailto:SGKooverjee@Landbank.co.za)

012 686 0814 / 082 331 1790

or

Chanelle Paul - Business Analyst: Partnership Funds Management Unit

[CPaul@Landbank.co.za](mailto:CPaul@Landbank.co.za)

012 686 0831 / 072 844 6716

## **2. FUND COMPOSITION**

- R300m mezzanine debt funding
- R300m senior debt funding
- R25m business support grant funding
- R25m interest-free insurance premium debt

## **3. TARGET MARKET**

### **3.1 Integrated Development Farmers**

A number of key players in the commercial agricultural sector (industry bodies, co-operatives, commercial entities etc.) have their own development programmes, whereby they support a portfolio of development farmers through various interventions including management support, technical support, market access etc. Such development programmes often do not achieve their full potential in establishing self-sustaining Black commercial farmers. Reasons are the limited financing/risk appetite of commercial partners and the inability of these development farmers to attract external financing, often related to equity and collateral limitations.

These integrated development farmers have often evolved beyond the stage of qualifying for grant funding (such as CASP etc.). However, they may not normally qualify for commercial (or even DFI) funding, or alternatively be faced with only partial funding, availed at prohibitively high borrowing costs and unattainable collateral requirements. The Fund aims to target such integrated development farmers. The comprehensive business support is considered to be a key element needed for participants in this market segment, to increase their skills levels and develop their ability to operate competitively and independently at a commercial level.

### **3.2 Integrated Broad Based Ownership Projects**

New/expansionary transformation developments (job creating) in projects with majority broad based or community/worker ownership structures that are undertaken in joint shareholding with commercial partners may also qualify. Transformation metrics in respect of Black management representation, upskilling/upliftment of workers/communities etc. will be required.

## **4. POTENTIAL BENEFITS OF INTEGRATION**

- Production and quality enhancements through technical support from an experienced commercial partner;
- Improved cash and other resource management through financial management support;
- Revenue benefits through participating in the commercial partner's established market channels and value chain;
- Lower input cost prices relative to smaller operational scale, by sourcing through the commercial partner's larger supply chain.

- Expensive capital spend on equipment being contained through contracting-in services from commercial partner.

## **5. POTENTIAL BENEFITS THROUGH INDUSTRY PARTNERSHIPS**

### **5.1 Benefits to underlying borrowers**

- Comprehensive technical, marketing and business support, leading to up-skilling for independent operational and management capacities.
- Integration into supply chain of commercial partner, for improved input pricing and terms. Integration into marketing chain for secure off-takes and improved revenues through value chain integration.

### **5.2 Benefits to lender**

- Gearing and cash flow related risks reduced through business support and integration into established supply and marketing chains.
- Improved certainty of funding disbursements being efficiently utilised for their designated purposes, through commercial partner involvement.
- Improved access to borrower proceeds for debt service.

### **5.3 Benefits to commercial partners**

- Improved BEE scorecard benefits.
- Securing additional product for established market chains.
- Funded business support program.

## **6. APPLICATION OF FUNDS**

- Applicants must be minimum 51% Black owned (or funded transaction must achieve this).
- Projects must be integrated into partnerships/comprehensive business support with Industry Partners to the extent deemed required for commercial success.
- Full agricultural value chain funding.
- Start-up projects or expansions (must create new production capacity and jobs, not just change of ownership). Only expansionary components of acquisitions can be funded.
- Development costs / Production loans / Infrastructure / Land purchase (undeveloped land, not already established).
- Total funding per transaction (mezz + senior) estimated to range approximately between R15m and R40m (not hard limits). Facility can be accompanied by conventional Land Bank financing at normal lending rates.

- Offtakes from funded enterprises will be co-ordinated on commercial terms, so as to mitigate offtake pricing risks and maximise value chain participation.
- Deciduous fruit sector excluded, due to existing support through the Jobs Fund's Hortfin programme developed by the Deciduous Fruit Producers Trust.

## **7. PRICING**

The pricing at the inception of the Fund was as follows.

Mezzanine Debt Pricing: Interest rate of (Prime + 5%)/2

Senior Debt Pricing : Prime rate

The potential for revision of pricing on account of subsequent financial market, liquidity and risk rating influences cannot be ruled out.

## **8. NATURE OF FUNDING**

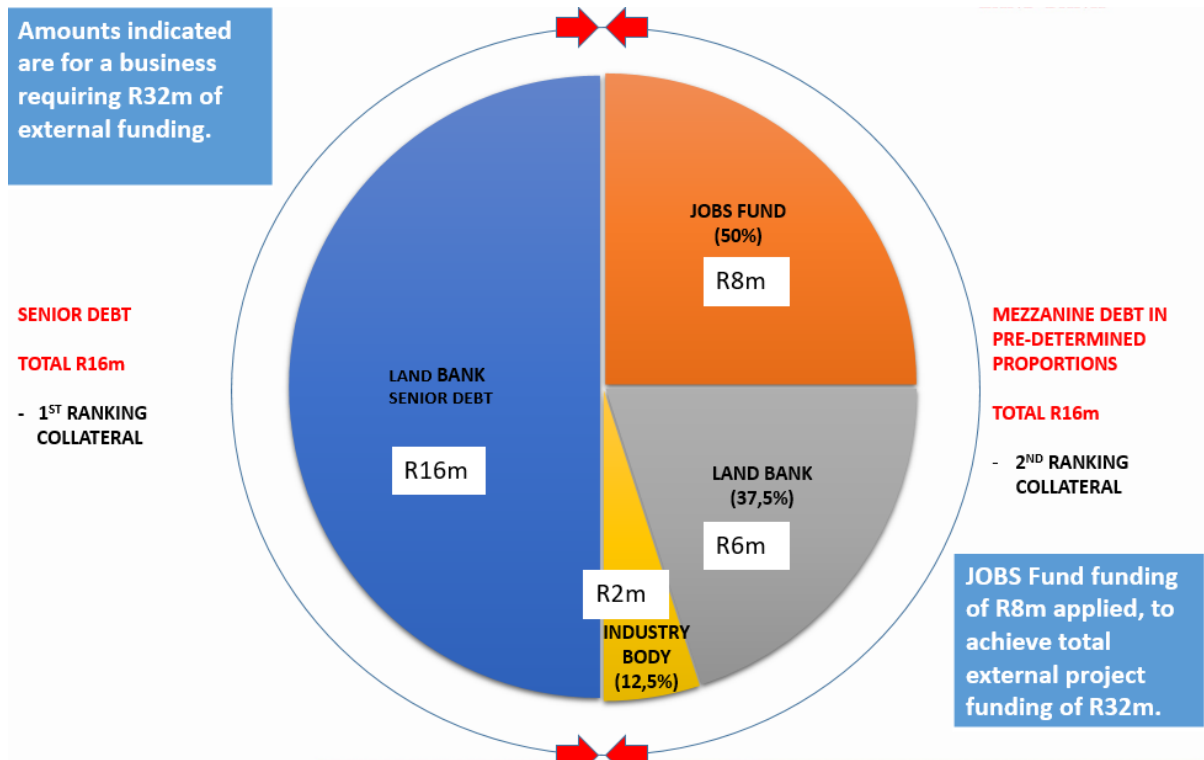
### **8.1 Senior Debt Characteristics**

- 1st ranking collateral
- Sculpted repayment profiles/ payment moratoriums/ interest capitalisation
- Collateral cover of at least 1.0 times (post required haircuts in collateral values).

### **8.2 Mezzanine Debt Characteristics**

- 2nd ranking collateral, behind the senior debt portion.
- Sculpted repayment profiles/ payment moratoriums/ interest capitalisation (matching the Senior debt)
- Collateral cover < 1.0 times acceptable.
- 2nd ranking collateral will be registered even in the absence of value, in order that collateral is realisable for the mezzanine component as the (senior and mezzanine) loans are amortised.

## 9. TYPICAL FUNDING COMPOSITION (EXCL. INTERNAL PROJECT FUNDING)



## 10. INSURANCE COVER

- Insurance cover compulsory for borrowers.
- Insurance assessment done by LBIC (Land Bank Insurance Company) to establish needs.
- LBIC arranges independent market quotes from multiple insurers using independent brokers.
- If clients require their insurance premiums to be funded, this can be done to some extent on an interest free loan basis using the R25m Jobs Fund provision.
- Terms of insurance premium loan repayments to the Bank to be set to match underlying business cash flows.

## **11. COST PER JOB TARGETS**

Projects funded must demonstrate the ability to achieve and report on the actual delivery of the following minimum job creation targets:

- Within a period of 3 years, at least 1 new job (permanent and seasonal combined) must be created for every R400 000 (senior and mezzanine debt combined) borrowed from the Fund.
- Within a period of 5 years the above figure needs to increase to at least 1 job per every R300 000 borrowed.

To this end, agricultural sub-sectors or projects that cannot demonstrate the ability to achieve the job creation thresholds cannot be considered.

## **12. BORROWER SELECTION CRITERIA**

- Enterprises that already have majority Black shareholding, or the transaction financed must simultaneously result in majority Black ownership;
- Funded entities must be appropriately integrated into or supported by an established commercial partner to the extent deemed required for commercial execution;
- All agri-sectors financed (excluding deciduous sub-sectors financed by Hortfin SPV), provided the minimum job creation criteria are satisfied;
- Full value chain financing i.e. primary production, processing, logistics etc.;
- Funding of capital development costs, working capital, infrastructure etc.;
- Existing businesses and green-fields developments;
- The extent of sustainable job creation (beyond the minimum criteria) within the 3 year and 5 year periods will be strong considerations;
- Only new capacity creation qualifies for financing - for acquisition transactions, only expansionary elements can be financed through the Fund;
- Funding of purchase of undeveloped land (not already established), in keeping with the developmental and employment creation objectives of the fund;
- Funding to entities that are either already at a commercial scale, or would achieve a commercial scale through the expansion or development funded;
- Appropriate insurance risk mitigation;
- Borrower consent to co-opting management capacity/business support provided, and agreement with the extent of technical, marketing and business support to be provided;
- Borrower consent to further skills development and training;
- Borrower consent to implement proper financial and administrative systems for reporting, business management and monitoring and evaluation purposes;
- Borrower agreement to provide ongoing reporting as required by JOBS Fund/ Land Bank criteria.
- Borrower consent to regular monitoring and evaluation audits by the Bank and/or external parties relating to the Jobs Fund project.