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REQUEST FOR INFORMATION RELATING TO THE FRESH PRODUCE MARKET INQUIRY (CASE NUMBER: 2022APR0051) – LAND BANK RESPONSE

4. Explain your understanding of the fresh produce value chain (all levels and players) and indicate where Land Bank fits within the value chain.

The fresh produce value chain refers to the process of bringing fresh produce from the farm to the consumer. This involves various players, including farmers, input suppliers, processors, distributors, retailers, and consumers. The Land Bank fits within the fresh produce value chain as a source of finance/credit (sometimes assist also with grants in conjunction or with the assistance from Department of Agriculture) and support towards the value chain players with specific focus on primary agriculture with focus on food security related commodities. This include providing loans for acquiring land, share acquisition, production loans, financing for equipment, infrastructure development, establishment etc.

6. Does Land Bank have policies/support mechanisms to bring SMEs and/or firms owned and controlled by historically disadvantaged persons? If yes, provide documentation which details the support provided. If no such documentation exists, please describe the nature of the support provided.

Yes, Land Bank has developed policies, products and funding instruments that enable support to SMEs and previously disadvantaged individuals.

(i) **Policies** – The Credit policy focuses more on developmental credit and elevates the need for partnerships (including Blended Finance) across the credit value chain including pre- and post-finance support.

(ii) **Products** – The Land Bank offers long term debt for acquisition of farms and property improvements. Medium term debt is offered for establishment of crops, purchasing of livestock, machinery and vehicles. Short term debt is offered for financing production inputs and working capital. Products are offered to all client segments including small scale farmers and PDIs.

(iii)**Funding Instruments** – The Land Bank has recently launched the blended finance scheme in partnership with the Department of Agriculture, Land Reform and Rural Development (DALRRD). The objective is to offer blended funding solutions to SMEs or PDIs through blending the Land Bank senior loan with a conditional grant from DALRRD. The objectives of this programme is to:

- Support the development and participation of black producers in the mainstream agricultural economy and along the agri value chain;
- Increase access to affordable finance by black producers;
- Address inequality, create sustainable jobs, create wealth, grow the economy and eradicate poverty;
- Transform the sector; and
- Accelerate land redistribution by supporting land acquisitions along the value chain

(iv) **Business support services -** Land Bank has initiated a process of formalising working relations through agreements with Provincial Departments of Agriculture, Commodity Organizations, AgriSETA, and other similar organizations for the provision of pre- and post-finance support services. Land Bank has procured a panel of service providers to assist where support services cannot be sourced either internally, or from Provincial Departments of Agriculture or Commodity Organizations.

The Land Bank has set aside a budget to partially finance these services in collaboration with various public and private sector partners.

8. From Land Bank 's viewpoint does the current design of funding (funding markets and financial support) models promote entry and economic participation of small-scale farmers? Briefly explain and provide evidence where applicable.

In the South African market there is generally a lack or shortage of patient capital funders that will be able to take the risks of financing small scale farmers. There is a need for more concessionary or grant funding in the market to enable access to finance. The financial institutions will therefore be able to offer blended funding solutions where there is a level of de-risking in place.

Government departments (National and Provincial) need to strengthen their extension services to enable quick access to information to small scale farmers/ PDIs on the requisite regulatory requirements that are critical in the agricultural industry and there is a need to shorten the turnaround times for applications for licenses or permits.

The below are the reasons for the inability to finance this segment on the scale that is required.

- Lack of equity;
- Lack of affordable finance;
- Lack of collateral;
- Lack of skills, experience, and track record;
- Lack of climate/environmental models for risk management in the sector;
- Lack of access to value-chains and market-related prices for production inputs;
- Lack of coordination of private sector funds / skills available to support new-generation farmers
- Difficulty in obtaining water use licence and environmental impact assessments.

10. What are the factors considered and the rationale for considering those factors when financial institutions design the funding criteria for fresh produce farming operations?

Factors considered are farm size and production capacity of the farm, crop type and yields, market demand and pricing, environmental and sustainability factors, availability and legality of water for irrigation purposes, credit worthiness (repayment ability) and risk of the business. These factors help the bank to assess the potential profitability and viability of the farming operation, as well as risk management to ensure that the credit is provided to those who can afford it (avoid reckless lending) and but also that those provided with credit have the necessary means and comply with regulations i.e Water Management Act, NEMA.

11. Are there barriers to entry created for small growers by unfair or discriminatory application requirements and selection criteria? Briefly discuss and provide evidence where applicable.

Land Bank requires collateral to secure loans, which can be difficult for small-scale farmers who may not have significant assets or title deeds for the pieces of land they farming on to put forward. This can make it challenging for small-scale farmers to access finance compared to large-scale farmers. Blended finance is aiming to close this gap by offering 60% grant: 40% loan, 50% grant: 50% loan and 40% grant: 60% loan depending on yearly turnover of the farm. Small-scale farmers may not have the same level of access to information and resources as large-scale farmers. Limited access to markets and information plays a negative role towards success of small-scale farmers. However, our trained Banker and Agri Specialist are available to support developing farmers at application stages.

12. In terms of development funding/finance, what is the uptake rate of small-scale farmers.

[redacted]

13. In Land Bank 's view is the cost of finance/funding prohibitive or discriminatory to small-scale farmers in any way? Briefly elaborate on your answer and provide evidence where applicable.

The cost of funding is relative to the risk that financial institutions need to take when financing small scale farmers. Given the points raised in Question 8 above there is a need to price for risk which then results in pricing being higher than established businesses. The segment is also prone to higher volumes of business failures which contribute to non-performing loans therefore the risk ratings and pricing will reflect the general performance, credit profile and payment behaviour of this segment.

14. What is Land Bank's standpoint on the use of the blended finance model?

The blended finance model is an appropriate funding model which enables the Bank to finance more development clients whilst also addressing the market failures which prevent access to finance to emerging businesses. The blended funding solution is also beneficial to development clients given that it lowers the gearing in their balance sheets whilst offering an opportunity to have equity through the grant portion. The model also enables a reasonable level of pricing of the loans which enables access to affordable finance. Land and asset acquisitions across the agri value chain are also funded which contributes to land redistribution and the ability for development clients to have access to their own productive land and assets. Positive spin offs are also achieved through contribution to increased production capacity, economic growth, exports & import replacements, food security, job creation and transformation to name a few.

15. What is the role and success of the incubator model for SMMEs in ensuring effective small-scale farmer participation in the fresh produce value chain?

Agribusiness incubators are meant to help in training small-scale farmers, establishes infrastructure, coordinates access to finance & production and provides a route to market by negotiating good prices with markets and large-scale producers. Incubator models in general normally are supposed to provide business development support, training, and mentorship to small-scale farmers to help them develop the skills and knowledge necessary to succeed in the industry. The benefits of the incubator model include access to finance, business development support, access to markets, and networking opportunities. As a Bank we offer this support through our Pre and Post support programme which aimed at assisting in deal structuring to enhance turnaround times, market & training linkages with various commodity groups.

17. What are other key market features or financial institutions and government conduct that increase barriers to entry or expansion of small-scale farmers in the fresh produce market?

Lack of infrastructure or deteriorating rural infrastructure, limited access to finance based on history of client and lack of collateral, high input costs, high insurance premiums, continuously increasing interest rate lately trying to curb inflation, continuous load shedding, and economies of scale.

19. Provide a list of all loans advanced to farmers operating in the fresh produce space in the past 5 years. In your response, list the names of entities, loan amount, purpose and interest rate applicable. Kindly distinguish the loans advanced to small scale producers and commercial producers.

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20. Kindly provide a brief description of the recently launched "blended finance scheme" and also provide the rationale for introducing it. How will this differ from previous funding scheme by the Land Bank and will there be a provision of funding specifically for smallholder farmers? Kindly elaborate in you explanation and provide all underlying documents such as strategic documents, board packs and any other document wherein the blended finance scheme was discussed and or mentioned.

The blended finance scheme is a partnership between Land Bank and DALRRD which will be implemented over a 10-year period. The fund was launched in October 2022. Land Bank and DALRRD will provide matched funding where Land Bank is a senior debt funder and DALRRD is a grant contributor. The Fund caters for small, medium and large-scale producers where the majority of the funding budget (70%) has been allocated to finance small and medium scale producers. The commodities that are financed are in-line with the Agriculture and Agro-processing Master Plan. Funding is available for long, medium- and short-term debt which is used to finance land, assets, capex, production and working capital. The scheme also offers insurance subsidisation which enables client's insurance premiums to be partially subsidised from the insurance grant. The current BFS scheme is predominantly targeted to the development segment and small-scale producers have been allocated to receive a higher grant portion (max. 60% grant) which will assist in deleveraging the balance sheets of these emerging producers. In the current scheme as the producer grows in scale (i.e. medium to large scale) the grant portion decreases relative to the loan portions given they would be in a position to afford a higher loan portion than small scale producers. Previous schemes were not as targeted and the grant portions were not pre-defined based on the scale of production that the business is at. There was no insurance grant offering.