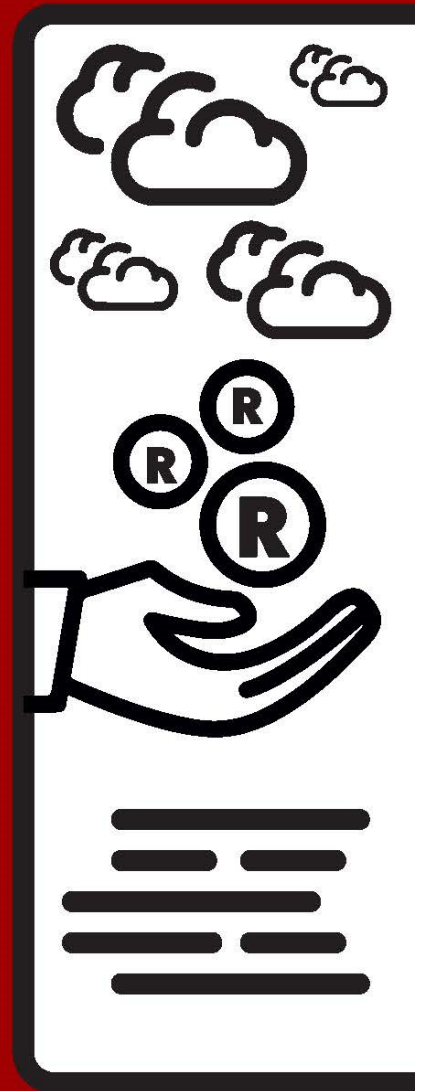


Answering your  
questions about the

# **ENERGY BOUNCE-BACK LOAN GUARANTEE SCHEME**

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Department:  
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REPUBLIC OF SOUTH AFRICA



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## **ENERGY BOUNCE-BACK LOAN GUARANTEE SCHEME FOR BUSINESSES IN SOUTH AFRICA**

In the February 2023 State of the Nation Address, the President Mr Cyril Ramaphosa committed to “Adjust the bounce-back loan scheme (BBS) to enable small businesses to invest in solar equipment”. During the 2023 Budget Speech, the Minister of Finance, Enoch Godongwana, provided detail on the adjustment of the Bounce-Back Loan Scheme by stating that the “Government will guarantee solar-related loans for small and medium enterprises on a 20 per cent first-loss basis”.

National Treasury has launched the Energy Bounce Back Loan Guarantee Scheme (EBB) today, an initiative aimed at working towards alleviating the negative impact of continual difficulties resulting from unreliable power supply on small businesses and households. The EBB aims to generate 1000 MW in additional generation capacity during the next 12 months as well facilitate resilience to loadshedding for micro and informal businesses. The EBB is a complementary intervention to the tax measures announced in the 2023 Budget Speech. Applicants may therefore apply for both tax and EBB measures.

To facilitate these investments, government through a government guarantee administered through the South African Reserve Bank, assume the initial losses (20%) with finance providers assuming the risk for the remaining losses for SMEs and households’ rooftop photovoltaic solar investments (rooftop solar).

## **1. WHAT IS THE ENERGY BOUNCE-BACK LOAN GUARANTEE SCHEME?**

The Energy Bounce-Back (EBB) Loan Guarantee Scheme is an initiative in support of resilience of small businesses and households to the continual difficulties resulting from unreliable power supply and / or loadshedding. The EBB aims to incentivise the generation of an additional 1000MW of power through rooftop photovoltaic solar over the next 12 months (terminating on 30 August 2024), whilst helping small business and households mitigate the effects of loadshedding. The EBB will work through three mechanisms.

### **A) MECHANISM 1**

#### **Loan guarantee for rooftop solar for SMEs and households' investment.**

This mechanism will facilitate loans to Small and Medium Enterprises (SMEs) and households for investments related to rooftop solar generated energy. This investment includes solar panels, batteries, inverters, and other installation related costs. This mechanism will also allow for loans to purchase resilience assets like small portable batteries for businesses only.

### **B) MECHANISM 2**

#### **Loan guarantee for rooftop solar for Energy Service Companies (ESCOs).**

This mechanism will facilitate loans to ESCOs who provide leasing, instalment sales, and power purchase contracts to SMEs and households. This mechanism will allow businesses and households to switch to ESCO service providers for more reliable and cleaner energy without the need for loans to finance the full upfront costs of rooftop solar equipment themselves. Support from the EBB, which will be provided to the ESCO's to enable them to scale up and expand leasing services to households and small businesses, will require ESCO's assessing the individual needs of households or businesses, the implementation of a suitable solution and the conclusion of a leasing, instalment sale, and power purchase contract between the ESCO and applicant.

### **C) MECHANISM 3**

#### **Working capital loans for businesses in rooftop solar supply chain.**

This mechanism will facilitate working capital loans for those businesses that supply rooftop solar to meet increased demand. This mechanism will help increase the supply of rooftop solar solutions allowing businesses to source rooftop solar equipment with minimum delays.

In addition to the mechanisms above, the National Treasury and the Industrial Development Corporation (IDC) are working to expand funding for new ESCO's through additional financing

instruments. This will ensure a competitive and transformed landscape for ESCO's. The IDC will provide details of these instruments in due course.

## **2. HOW DO BUSINESSES ACCESS THE SCHEME?**

The EBB loans will be accessible through participating banks (banks which have opted to use the EBB for their customers), Development Finance Institutions (DFIs) and non-bank SME finance providers. ESCO's will also access funding through participating banks.

Access to the EBB for DFIs and non-bank SME finance providers will be facilitated through participating banks on the same basis as the banks' participation.

## **3. HOW IS IT STRUCTURED?**

The National Treasury has provided a guarantee to the South African Reserve Bank (SARB). This guarantee is to be recorded as a contingent liability on the government's account. The SARB will lend money to participating banks at the repo rate plus a 0.5 per cent once-off charge of the amount disbursed. Participating banks and other lenders will lend this money as well as their own funds for the unguaranteed portion (80%) of the loan amount (which is raised by the individual banks, DFIs, and non-bank SME finance providers through their usual funding channels) to SMEs and households at an interest rate of no more than the repo rate plus 6% per cent.

## **4. WHO MANAGES THE SCHEME?**

The National Treasury through the SARB and participating banks will enter into a legal agreement on the relevant financial and operational requirements. Non-bank lenders may only participate in the EBB through participating banks, as only licensed banks have access to the SARB's repo facilities. The SARB is the administrator of the EBB on the National Treasury's behalf. The SARB will provide the finances for these loans to banks and will keep a record of the amounts owing by each bank as well as default rates. The SARB will provide National Treasury with an annual report setting out how much each bank would have used from the EBB and the performance (default rate) of each bank's loan portfolio. Details of the guarantee envelope and use will be published in the Budget Review.

## **5. WHICH BANKS ARE PARTICIPATING?**

All commercial banks can access the EBB although the SARB reserves the right to limit the amount that can be accessed by an individual bank; however some banks may opt not to participate. The entire EBB scheme will be available for a limited duration until Friday 30 August 2024 with the goal of reaching 1000 MW of new generating capacity. The National Treasury will assess the effectiveness of the EBB scheme thereafter. The EBB scheme will be dispersed through participating banks on a first come, first serve basis until the first of either the final date (30 August 2024) or until

the EBB scheme reaches 1000 MW. If your current bank is not participating in the EBB scheme, businesses and households may approach any other participating bank, DFI or non-bank SME finance provider to access any mechanism under the EBB. National Treasury will continue to engage with banks to allow them to participate on an ongoing basis. Currently ABSA Bank, First National Bank and Standard Bank have indicated they will participate.

## **6. WHICH BUSINESSES AND HOUSEHOLDS QUALIFY?**

Any business or household borrowing under the EBB will need to meet the participating bank's specific requirements. In addition, businesses will need to be registered with the Companies and Intellectual Property Commission or be registered for Value Added Tax in terms of the Value Added Tax Act, 89 of 1991 with the South African Revenue Service.

Eligible businesses must have a maximum turnover of R300 million. DFI's and non-bank lenders, which include wholesale retailers offering credit products servicing informal traders, can access the scheme through commercial bank up to a maximum of R300 million per entity. The maximum amount a business can borrow is R10 million. SME's can also borrow a maximum of R30 000 through the scheme for resilience measures. Resilience measures include power storage assets without generating capacity, like batteries and inverters. This is to enable access for micro and informal business who may require portable battery or similar equipment to these assets, as well as businesses operating on premises where landlords are unable or unwilling to enable solar panel installations.

For households, a maximum amount loan amounts for the purchasing of rooftop solar will be R300 000 per household.

For the leasing mechanism (mechanism 2), prospective customers would also need to comply with the requirements set out by participating banks and the ESCO providing the leasing service.

Businesses in the rooftop solar supply chain, installers, those importing batteries, investors and panels will be able to borrow up to R100 million for working capital to ensure wait times are reduced.

## **7. MAY A BUSINESS WITH A CURRENT LOAN FROM THE LOAN GUARANTEE SCHEME APPLY FOR AN AMENDED OR ANOTHER LOAN UNDER THE SCHEME?**

Businesses and households may contact any participating bank, to apply for a loan or enter into a leasing arrangement under this Scheme. The granting of a loan will depend on the business or household meeting the eligibility criteria of this Scheme as well as the participating banks credit criteria. The terms of the leasing arrangements will be determined by the individual ESCO. If a loan was previously declined under a previous guarantee scheme, the business may apply again for an

EBB loan subject to their bank's credit assessment practices, for example, if the loan was previously declined due to the business not being in good standing with its bank on 29 February 2020 or it was unable to prove its turnover, then the business may apply. In addition, if a business successfully applied and received a loan under a previous loan guarantee scheme (i.e the COVID Loan Guarantee Scheme of 2021 or the Bounce Back Guarantee Scheme of 2022), that business will still qualify for a loan under the EBB, subject to the participating bank, DFI's or non-bank finance providers criteria.

## **8. MAY A BUSINESS THAT HAS CLAIMED A TAX BENEFIT UNDER THE ROOFTOP SOLAR INCENTIVE APPLY FOR A LOAN UNDER THE SCHEME?**

Yes, the EBB is a complementary initiative to the tax incentive announced by the Minister during the 2023 Budget Speech. Both businesses and households (individuals) who have claimed under the tax incentive may apply for loans under the EBB. Businesses and households will need to comply with the reporting requirements as set out by the South African Revenue Service to qualify for the tax incentives. In addition, borrowing businesses, ESCO's and other businesses in the rooftop solar supply chain are encouraged to utilise the employment tax incentive and the carbon tax allowances to reduce the cost of taking on additional employees and benefit from the reduced carbon intensity of their activities.

## **9. HOW WILL LOSSES WORK?**

Participating banks, non-bank SME finance providers, DFIs, and the National Treasury share the risks of the Scheme with the National Treasury taking the first 20% loss and lenders assuming the remaining risk. The SARB takes no financial risk in the Scheme as its loans to banks are guaranteed by the National Treasury.

## **10. WHAT CONDITIONS DO BANKS, DFI'S, AND NON-BANK SME LENDERS HAVE TO MEET?**

Banks, non-bank SME finance lenders, and DFIs are required to comply with applicable lending legislation and regulations. They will use their existing credit assessment processes and infrastructure to process loan applications. Banks and other finance providers have discretion on whether they wish to extend a loan to an applicant. Likewise, ESCO participating under the scheme will have discretion on whether they wish to extend leasing arrangements to individual SME's and households.

Banks will cede any loans under this Scheme to the SARB as security or collateral for the funds made available to the banks. Banks will report regularly to the SARB on the performance of the loan portfolios. Non-bank lenders and DFIs will follow the same process with their participating bank acting as facilitator.

## **11. WHAT HAPPENS IF A BUSINESS THAT HAS TAKEN AN ENERGY BOUNCE-BACK SUPPORT LOAN CLOSES DOWN?**

If a business that has taken a loan goes into liquidation, the loan will be fully pursued for all possible recoveries by banks (or relevant lender). Banks (as lender) will recover the government portion of the loan on its behalf only when the bank has declared that loan as a defaulting loan (i.e the loan is classified by the bank as "credit impaired" as stage 3, as defined in IFRS 9, and the bank has applied its standard recovery process applicable at the time for a minimum period of six months). The banks do, however, have an obligation to continue with their attempts to recover.

## **12. WHO CAN I CONTACT FOR MORE INFORMATION?**

To access the Energy Bounce-Back Loan Guarantee Scheme, contact your primary bank to determine if your bank is participating in the Scheme. If your bank is not participating in the Scheme, please approach any other bank to determine if that bank is participating. You can also enquire through your DFI or non-bank finance provider.