SIOC COMMUNITY DEVELOPMENT TRUST

Defining ourselves through **our actions**, not our words

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GROWTH FUND RFI Q&A

1. What is the budgeted procurement spend being considered? If R60 Million is set aside as a Growth Fund for on lending to targeted suppliers

    1. Budgeted procurement spends.

    The Growth Fund is capitalized at **R60 million**, ringfenced specifically for **purchase order and contract financing**. These funds are not linked to a predefined procurement spend but are intended to support qualifying local SMEs servicing mining and related sectors in the Northern Cape and Thabazimbi (Limpopo) regions.

2. And if I did get you correct, the RFI requires more of a Fund Admin rather than a Fund Manager? Difference being no finance costs are meant to be incurred by the end supplier and the transactional costs incurred by the Fund Admin or Fund Manager will be invoiced to the Trust? Essentially on lending is at a zero percent to the end supplier (no interest is charged) with the aim of capital preservation (the R60 Million remains intact for the 36-month cycle)?

    2. Fund Admin vs. Fund Manager Structure

    You are correct, the model proposed under the RFI is **more aligned to a Fund Administrator** than a traditional Fund Manager.

- The Fund Admin will **not be required to raise third-party capital**.
- The fund is designed as a **zero-interest on-lending vehicle** for SMEs, prioritizing **capital preservation** over yield generation.
- **Transaction fees, admin costs, and disbursement-related expenses** incurred by the administrator will be **invoiced directly to the Trust**, subject to pre-approved budgets and Service Level Agreements (SLAs).

3. In my experience this poses a certain challenge, in that in any on lending activity there is a "hurdle" rate which essentially is a break-even cost of on lending to the end supplier. This depends on various factors mainly associated with cost of resources i.e. staff costs to manage and execute these transactions for disbursement. deployment of funds. On top of it all, there is the collection process costs (cost of Monitoring, Collection and Reporting).

3. Zero-Interest On-Lending – Hurdle Rate Considerations

We acknowledge your concern regarding the operational hurdle rate. While no interest is charged to end suppliers:

- The **Trust will cover operational and administrative costs** as a separate budget line item.
- This includes staff costs, compliance checks, collections, and reporting.
- Service providers are encouraged to propose a **transparent fee structure** that reflects these costs and allows for sustainable operations over the 36-month period.

4. From a process point - disbursement/ deployment of funds - what are the expected lead times if this process seemingly is vested on the Trust and not the Fund Admin/ Fund Manager?

4. Disbursement lead times

The disbursement process will be **delegated to the appointed Fund Administrator**, not the Trust.

- The admin will be expected to process transactions within a **defined SLA**, typically **7–10 working days**, subject to receipt of a verified purchase order or contract, completed KYC, and supporting documents.
- The Trust will maintain oversight but not manage individual disbursements.

5. There are certain Business Support Services which are required by the Trust, which also comes as an additional cost on top of the "hurdle" rate and the collection process costs, that must also be considered so that all costs associated with the implementation of this Growth Fund are considered. The last thing one needs is to have true costs which exceed what one has considered thus Fund Admin/ Fund Management activities end up being run at a loss.

5. Business Development Support Services (BDS) Costs

Yes, the Trust has ringfenced a **separate BDS budget** to complement the Growth Fund.

- Services include compliance workshops, financial literacy, business coaching, and digital tools to strengthen SME capacity.
- Respondents to the RFI are welcome to propose **integrated delivery models** that incorporate or interface with these services efficiently.
- The Trust seeks **full cost transparency** to avoid under-capitalising the administration or support infrastructure.

6. Do you have any intel on current pipeline of potential contract finance clients from the local mining operations? And what industries are they from - construction, engineering etc.?

6. Current Pipeline of Potential Contract Finance Clients

Yes, we do have preliminary insights into a pipeline of potential contract finance clients. These are primarily local SMMEs operating within the mining value chain and related sectors. The industries include construction, engineering services, plant hire, transport and logistics, as well as general supply and maintenance. Several of these businesses are already engaging with local mining operations and have expressed interest in accessing purchase order or contract financing.

7. Is there an existing database of clients for possible funding support?

7. Existing database of clients

Yes, SIOC-CDT has an existing database of local SMMEs that have participated in previous Enterprise Development initiatives and compliance workshops. This database is being continuously updated and forms part of the initial pool of businesses we are targeting for funding support under the Growth Fund.

8. What is the profile of SMEs to be supported? e.g. level of maturity, experience of the directors/shareholders. Is SIOC willing to fund start-ups?

8. SME profile for support

It is important to note that the **Growth Fund is not a business loan facility or seed capital programme**. It is strictly designed to provide **guaranteed Purchase Order (PO) and Contract Financing** to SMEs that have already secured **verifiable contracts or POs from credible clients**.

Accordingly, SME profiling is based on the following principles:

- A business must have a **valid purchase order or contract**, it may qualify for support—even if it is at **start-up stage**—provided that proper due diligence process is conducted.
- There is **no requirement for a long operational track record**; however, preference will be given to SMEs that can demonstrate **basic business functionality**, such as compliance with tax and regulatory requirements.
- The focus is on **contract-backed lending** and not speculative financing, which significantly reduces the risk of default and ensures alignment with the Fund's capital preservation objective.
- Directors or shareholders are expected to possess **a basic level of operational or technical competence**, but sector-specific technical support or mentorship may be provided where needed.

In summary, the Fund is open to supporting even **low-maturity or early-stage SMEs**, as long as their funding need is tied to a **real, contractually secured opportunity** from a recognised client.

9. What is the target number of SMEs or average loan size expected out the R60m fund?

9. Target Number of SMEs / Average Loan Size

There is **no fixed target**, but indicative estimates suggest:

- **60–80 deals annually**
- **Average deal size** between **R500,000 to R1.5 million**, depending on the size of the contract and repayment terms
- The R60m will revolve over the **36-month term**, and repayments will be reinvested into new deals to increase the number of beneficiaries.

10. Is part of the fund expected to be grants? Sometimes SMEs cannot raise own contributions and 100% debt funding may not be affordable

10. Grant vs. Debt Funding

The Growth Fund is **not a grant programme** nor a traditional **business loan facility**. It is a **contract-backed financing mechanism** that provides short-term working capital against valid and verifiable purchase orders or contracts.

SMEs are **not required to contribute equity or own capital** toward the transaction. The funding is provided at **zero interest** and does not require collateral, as repayment is secured through the contract or PO proceeds.

The goal is to enable SMEs to fulfil orders or deliver on contracts without the burden of interest-bearing loans or the pressure of upfront contributions, while maintaining capital preservation for long-term fund sustainability.

11. What is the expected ratio between Purchase Orders and long-term Contracts?

11. Ratio Between Purchase Orders and Long-Term Contracts

The Fund anticipates a **60:40 split**, with **purchase order finance** being the dominant use case in Year 1.

- Contract finance will be activated as SMEs gain scale and win **framework agreements or recurring scopes** over multiple months.

12. What is the expected ratio between Northern Cape and Limpopo?

12. Geographic Allocation: Northern Cape vs. Limpopo

While the Fund is intended to support both regions, the **expected split is 70% Northern Cape and 30% Limpopo**, based on:

- The Northern Cape component of the Growth Fund covers four municipalities with a population size of plus minus 320k, whereas in the Limpopo province, the focus is solely on one municipality – Thabazimbi with a population size of 65 thousand.
- The volume of procurement activity
- Number of compliant SMEs
- Readiness of existing pipeline

13. Is the R60m expected to be disbursed within the first 12 months, or would it be spread over 3 years?

13. Disbursement Timeline

The R60 million is intended to be **deployed in tranches over a 36-month period**.

- There is **no expectation** to fully disburse in the first 12 months.
- A **revolving fund model** is preferred, with repayments flowing back into the fund to finance future deals.

14. What is the split between PO finance and Contract Finance?

14. Split Between PO Finance and Contract Finance

Anticipated split:

- **PO Finance: 60–70%** (short-term bridging for verified purchase orders)
- **Contract Finance: 30–40%** – This includes structured financing for contracts with longer durations and milestone-based payment terms. **Asset finance** may also be considered on a case-by-case basis, where the financials are viable and aligned with the terms of the contract.