

Investment Toolkit for SMEs in Sierra Leone

Prepared by Acumen
for Invest Salone



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Introduction

After five years of investing and building a pipeline in Sierra Leone, Acumen has concluded that (i) the support required by small and medium-sized enterprises (SMEs) in the country to become investment-ready is much greater than their peers in many other sub-Saharan countries and (ii) without this pre-investment support only a handful of companies in the country would become viable investment prospects for impact investors.

Acumen initially partnered with Invest Salone in 2020 through their PROSPER Salone programme, which helps reduce the risks of investing in the Sierra Leonean market. With match-funding from the programme, Acumen then ran a series of investment readiness bootcamps which have informed the preparation of this toolkit.

What is the aim of the toolkit?

Acumen believes that insights gained from assessing the companies that participated in our 2021 and 2022 investment-readiness bootcamps will enable more companies to become investment ready and catalyse investments from impact investors into the country.

This investment toolkit includes a list of common gaps among Sierra Leonean SMEs, recommendations on how these gaps can be addressed, a list of resources they can leverage to close those gaps, and mechanisms for determining appropriate capital structures for these companies.

Who is it for?

The toolkit is intended for accelerators, incubators, impact investors, SMEs and any entity that is interested in maximising early-stage investments in the Sierra Leone entrepreneurial ecosystem. The toolkit incorporates observed best practices from impact investing, along with some of the key practices from the world of commercial investment, to create a structured and rigorous approach tailored to the specific needs of companies in Sierra Leone.

How should it be used?

The toolkit is designed to guide the design of pre-investment technical assistance interventions before an investor commits significant financial or non-financial support to a SME. The toolkit does not claim to offer a simple formula for success, nor to deter any additional steps investors may consider necessary, but it does provide a useful framework, rooted in due diligence frameworks, for pre-intervention investment analysis and assessment.

Tools and techniques

The toolkit introduces a series of assessments within each section, drawing on tried and tested commercial investment methods. The value of the toolkit is that it brings together impact and commercial investment principles to provide practical guidance. The assessments focus on five key questions of investment decision making:

1. Does the company hold all necessary business licences for its markets of operation?
2. Is the financial information of the company accurate?
3. Will the company be commercially successful at scale?
4. Is the management team able to deliver the growth targets and manage the business at scale?
5. Is there direct and indirect impact potential?

The answers to these questions feed into an initial concept assessment, and for those companies that pass this test, into a full intervention investment plan.

Legal and regulatory compliance

Area	Common gaps	Significance	Timing	Estimated cost	Available resources
Registration and incorporation	<ul style="list-style-type: none"> Not registered as a Limited Liability Company (LLC) Irregularity in wording of Memorandum of Association Absence of appointment of statutory auditors 	HIGH	Pre-due diligence	<US\$450.00	<ul style="list-style-type: none"> Company Secretarial Services Audit firms
Operating permits and licenses	<p>Absence of</p> <ul style="list-style-type: none"> Operating permits from local councils for those areas where it has leased properties for operations Certificate from the factories' Inspectorate <p><i>For agribusinesses</i></p> <ul style="list-style-type: none"> Seed certification From the Produce Monitoring Board: <ul style="list-style-type: none"> Dealership license Export license Store inspection certificate Phytosanitary certificate from the Ministry of Agriculture Export permit from the Ministry of Trade and Industry Environment Protection Agency permit 	HIGH	Pre-due diligence	US\$100–250 per year	<ul style="list-style-type: none"> Legal firms
Annual filings	<ul style="list-style-type: none"> Corporate Affairs Commission filings not up to date Annual returns to National Revenue Authority (NRA) not up to date 	MEDIUM	Pre-investment agreement	US\$20 per filing	<ul style="list-style-type: none"> Company Secretarial Services Legal firms
Tax payments	<ul style="list-style-type: none"> Irregular/late payment of Pay As You Earn (PAYE), Goods and Services Tax (GST), Withholding Tax (WHT) and Corporate Tax 	MEDIUM	Pre-disbursement	US\$20 per tax clearance certificate	<ul style="list-style-type: none"> Audit firms Legal firms
Social security and labour law	<ul style="list-style-type: none"> Irregular/late payment of National Social Security and Insurance Trust (NASSIT) payments <p>Absence of</p> <ul style="list-style-type: none"> Detailed policies on specific labour law requirements, e.g., sexual harrassment, grievance procedure 	MEDIUM	Pre-disbursement	US\$20 per clearance certificate	<ul style="list-style-type: none"> Legal firms
Product safety	<p>Absence of</p> <ul style="list-style-type: none"> Standard 'A' certificate of analysis from Standards Bureau <p><i>For exporters</i></p> <ul style="list-style-type: none"> International Organization for Standardization (ISO), Organic and Hazard Analysis Critical Control Point (HAACP) certifications 	LOW	100-day plan	US\$100	<ul style="list-style-type: none"> Consulting firms
				US\$5,000–15,000 per year	

Source: Acumen, 2022

Financial reporting

Area	Common gaps	Significance	Timing	Estimated cost	Available resources
Documentation and analytics	Absence of <ul style="list-style-type: none"> Accounting procedures and internal control manual Accounting software or system for collecting and inputting transaction data and a fixed asset register Cash and inventory management tools/systems 	HIGH	Pre-due diligence	US\$3,000-4,500	<ul style="list-style-type: none"> Audit firms
Financial statements	Absence of <ul style="list-style-type: none"> Audited accounts 	HIGH	Pre-due diligence	US\$3,000	<ul style="list-style-type: none"> Audit firms
Material contracts	Absent or non-enforceable <ul style="list-style-type: none"> Sales, supply and service contracts 	MEDIUM	Pre-investment agreement	US\$500-1,000	<ul style="list-style-type: none"> Legal firms
Management reports	<ul style="list-style-type: none"> Lack of management reports and KPIs used internally to track performance 	LOW	100-day plan	US\$1,000	<ul style="list-style-type: none"> Consulting firms

Source: Acumen, 2022

Commercial viability

Area	Common gaps	Significance	Timing	Estimated cost	Available resources
Market assessment	<ul style="list-style-type: none"> Limited or lack of independent market/industry research/data on competitive landscape, market availability etc. Limited or no customer surveys 	MEDIUM	Due diligence stage	US\$2,000-10,000	<ul style="list-style-type: none"> Consulting firms
Technical assessment	<ul style="list-style-type: none"> Plant and equipment failing to meet health and safety standards Absence of a maintenance policy No quality management system in place 	MEDIUM	Due diligence stage	US\$2,000-5,000	<ul style="list-style-type: none"> Consulting firms
Financial analysis	<ul style="list-style-type: none"> Balance sheet structure: <ul style="list-style-type: none"> Insufficient equity/too much debt High receivables/long cash cycles Unit economics: <ul style="list-style-type: none"> Lack of visibility on all costs Inability to capture cost of credit 	MEDIUM	Due diligence stage	US\$1,500	<ul style="list-style-type: none"> Consulting firms Audit firms
Intellectual property	<ul style="list-style-type: none"> Failure to register intellectual properties, trademarks etc. with relevant authorities 	MEDIUM	100-day plan	US\$2,500-5,000	<ul style="list-style-type: none"> Consulting firms
Risk management	Absence of <ul style="list-style-type: none"> Insurance on general liability, product liability, property, machinery etc. 	MEDIUM	100-day plan	US\$500-3,000 per year	<ul style="list-style-type: none"> Insurance brokers

Source: Acumen, 2022

Management capability

Area	Common gaps	Significance	Timing	Estimated cost	Available resources
Management assessment	<ul style="list-style-type: none"> Talent gaps (finance, engineering, technology and operations) without recruitment plan Absence of job descriptions for roles and organisational structure with reporting lines for each staff member 	HIGH	Pre-due diligence	US\$500-2,000	<ul style="list-style-type: none"> HR firms
Corporate governance	Absence of <ul style="list-style-type: none"> Balanced Board of Directors Quarterly board meetings Minutes and resolutions of board meetings filed with Corporate Affairs Commission Corporate policies (Board charter and compliance manual) Annual general meetings being held 	MEDIUM	Pre-disbursement	US\$500-1,000	<ul style="list-style-type: none"> Company Secretarial Services Legal firms
HR and talent development	Absence of <ul style="list-style-type: none"> Procedures and policies for hiring new employees, appraising employees, compensation, staff training plan Human resource information system (HRIS) Standard operating procedure (SOP) manual 	MEDIUM	Due diligence stage	US\$2,000-5,000	<ul style="list-style-type: none"> HR firms
Environmental and social risks	Absence of <ul style="list-style-type: none"> A comprehensive environmental and social management plan approved by Board of Directors and in compliance with local legislation Environmental, health or safety audits, surveys, appraisals, studies and other reports or impact assessments, conducted internally by outside consultants or governmental authorities A dedicated team responsible for managing environmental and social risks 	MEDIUM	100-day plan	US\$10,000-15,000	<ul style="list-style-type: none"> Consulting firms

Source: Acumen, 2022

Impact potential

Area	Common gaps	Significance	Timing	Estimated cost	Available resources
Data capture and tracking	Absence of <ul style="list-style-type: none"> Financial and social impact indicators for monitoring Baseline studies/surveys to understand target class 	LOW	100-day plan	US\$5,000-10,000	<ul style="list-style-type: none"> Consulting firms
Measuring impact	Absence of <ul style="list-style-type: none"> Impact monitoring schedule or plan 	LOW	100-day plan	US\$500-1,500	<ul style="list-style-type: none"> Consulting firms

Source: Acumen, 2022

Mechanisms for capital structures

The most appropriate form of financing for SMEs in a market like Sierra Leone is blended financing (grants/technical assistance, patient equity and local currency working capital). Investors and other ecosystem players should leverage grants and other pre-investment technical assistance funding opportunities to first address those critical high or medium gaps as outlined in the toolkit. Acumen estimates these interventions would cost between US\$15,000 and US\$35,000. Alternatively, investors could cover these costs and include them as part of the equity investment in the company.

Determining the size and structure of an investment in a SME in Sierra Leone should be based on revenue, cash conversion cycle, business model (B2B versus B2C), market served (export versus domestic) and strength of management team. A simple method to determine investment size is outlined below:

- Trailing 12 months (TTM) Revenue multiplied by 5
- If cash conversion cycle is less than 3 months, discount by 10%; if between 3 months and 6 months, no discount; and if above 6 months, apply a 15% premium.

Given the volatility of the business environment in Sierra Leone, Acumen also recommends a 70:30 equity-to-debt ratio for a capital structure for SMEs with the debt component being fully in local currency for all non-exporting businesses. Therefore, investors looking to provide foreign currency debt to businesses in Sierra Leone should focus on firms that earn foreign currency through exports or should look at hedging mechanisms (preferable a back-to-back lending arrangement with a local bank).

For further information and support, please contact Invest Salone to find out about their Technical Assistance Facility services, or explore the [ISF Fund Database](#) and [GET.invest Funding Database](#) for profiles of active investors in the energy and agricultural sectors.

Relevant investors in Sierra Leone

Microfinance institution

- A Call to Business Trading SL
- ASA Microfinance
- Association for Rural Development
- BRAC Microfinance SL
- Capitol Finance Company
- Counterpart in Community Development and Microfinance Company

- Ecobank Microfinance Sierra Leone Ltd.
- Finance Salone SL
- Grassroots Gender Empowerment Movement Microfinance
- Lift Above Poverty Organisation
- SAFE Microfinance
- Salone Microfinance Trust SL
- Source of Hope Microfinance

Instruments
● Short-Term Debt
Investment size
US\$86.4 (average)

Commercial bank

- Access Bank SL
- Commerce & Mortgage Bank
- Ecobank SL
- FBNBank SL
- Guaranty Trust Bank SL
- Keystone Bank SL
- Rokel Commercial Bank

- Sierra Leone Commercial Bank
- Skye Bank SL
- Standard Chartered Bank SL
- Union Trust Bank
- United Bank of Africa SL
- Vista Bank SL
- Zenith Bank SL

Instruments
● Short-Term Debt (Working Capital)
● Medium/Long-Term Debt (CAPEX)
Investment size
≥ US\$10,000

Development finance institution

- African Development Bank
- International Finance Corporation

- British International Investment (former CDC)
- Dutch Entrepreneurial Development Bank
- ElectriFi
- Emerging Africa Infrastructure Fund
- FinDev Canada
- FinnFund

- Global Agriculture and Food Security Program Fund
- Investment Fund for Developing Countries
- Islamic Development Bank
- KfW Development Bank
- Nordic Development Fund
- Norfund
- U.S. International Development Finance Corporation

- Instruments**
- Medium/Long-Term Debt (Senior Debt, Mezzanine Debt)
 - Equity
 - Grant
 - Guarantee
- Investment size**
≥ US\$1 million

Debt and equity funds

- Solon Capital

- AV Capital
- African Infrastructure Investment Managers
- Aqua Ventures
- Aster Capital
- Camco Clean Energy
- DOB Equity
- Fairmont Capital
- Injini
- Inspired Evolution IM
- Kawi Safi Ventures

- Lion's Head Global Partners
- Micro-Grid Catalytic Capital Partners
- Pala Investments
- Phatisa
- Private Infrastructure Development Group
- Presidio Ventures
- Renewable Energy Performance Platform
- Sarona Fund
- Shell Ventures
- 3rd Creek

- Instruments**
- Medium/Long-Term Debt (Senior Debt, Mezzanine Debt)
 - Equity
- Investment size**
US\$0.5-60 million

Impact investors

- Cordaid IM
- ManoCap

- Acumen
- Africa Enterprise Challenge Fund
- AgDevCo
- AgriFi
- AllOn
- Boma Investments
- Ceniarth

- Gaia Impact Fund
- Hivos-Triodos Fund
- ImpactAssets
- Inclusive/ Fair Factory Development Fund
- Mirova LDN Fund
- Omidyar Network
- Root Capital
- Triodos IM
- Truestone

- Instruments**
- Short-Term Debt (Seasonal Loan, Working Capital)
 - Medium/Long-Term Debt (CAPEX)
 - Equity (under very restrictive conditions)
- Investment size**
US\$75,000-2 million

Angel investors

- GoBeyond
- Melbourne Angels
- NuFund Venture

- Instruments**
- Venture Funding (Debt and Equity)
- Investment size**
US\$20,000-1 million

Crowdfunding

- MonitoFarm

- Kiva
- Trine

- Instruments**
- Venture Funding (Debt and Equity)
- Investment size**
US\$10,000-5 million

Green: Has an office in Sierra Leone

Blue: Has previously invested in Sierra Leone

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