



Sierra Leonean Investment- Readiness Insights Report

Prepared by Acumen
for Invest Salone



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Introduction



The entrepreneurial and venture capital landscape in Sierra Leone is promising and represents a unique frontier market for impact investment. This could have a significant social impact and improve economic livelihoods through job creation, food security, climate resilience and investor returns.

Acumen is a non-profit venture capital fund that has been investing in Sierra Leone for five years. With support from Invest Salone's PROSPER Salone grant facility, Acumen has invested in and provided significant post-investment support to two social enterprises, Easy Solar and Lizard Earth. Acumen has also delivered pre-investment technical assistance (TA) to 11 other firms through two investment-readiness bootcamps between 2021 and 2022.

From experience, Acumen believes that providing hands-on legal, financial and operational assistance to address key gaps in the business models of small and medium-sized enterprises (SMEs) would enable these companies to access investment from impact investors and more traditional capital providers. This would help these businesses to scale, and ultimately build new or underserved markets that address systemic socio-economic challenges. The design of Acumen's second investment-readiness bootcamp, hosted in 2022, was underpinned by this belief. It focused on supporting six companies, who had participated in the first bootcamp, with targeted and tailored TA to further develop the

required systems, materials and documentation for institutional investment. The first bootcamp, hosted in 2021, supported founders and entrepreneurs to gain clarity on how to move their businesses forward and feel more ready to undertake fundraising. The second bootcamp built on learning from the first and provided targeted technical assistance to support the most high-potential companies to scale.

This report outlines key insights from the 2022 bootcamp programme, covering the initial assessments conducted on the six participating firms; findings during the implementation of the workplans; and recommendations on how these firms can become investment ready.

In addition to this insights report, Acumen has prepared an investment toolkit for SMEs, accelerators, incubators, impact investors, early-stage companies and other entities keen to maximise investments into Sierra Leone. The toolkit includes a list of common gaps among Sierra Leonean SMEs seeking investment, recommendations on how to address these gaps, a list of resources that can be leveraged to close them and mechanisms for determining appropriate capital structures.

Acumen hopes that other impact investors, TA providers and ecosystem enablers will leverage these insights and tools to support the development of SMEs within Sierra Leone, ultimately catalysing more investment into this emerging market to fully unlock its potential.

Assessing SMEs

As part of the second bootcamp, Acumen and a local legal firm conducted due diligence assessments with each of the six participating companies to identify gaps

in their operations, team structures, compliance with local regulations, and business model. The following table summarises the findings.

Corporate governance

Absence of corporate governance policies such as:

- Board charter
- Compliance manual

No evidence of:

- Active and balanced Board of Directors
 - Regular Board meetings being held
 - Filings with the Corporate Affairs Commission
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Financial reporting and standards

Absence of the following documentation and/or systems:

- Audited accounts
- 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

No evidence of:

- National Social Security and Insurance Trust (NASSIT) payments being made on time
 - Returns being filed over the past three years
 - Filings or payments of withholding tax to the National Revenue Authority (NRA)
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Human resources

Absence of the following policies or systems:

- Human resources manual that covers policies for hiring, training, compensating and appraising staff
- Standard operating procedure manual, which includes essential policies and procedures
- Human resource information system

Talent gaps across:

- Finance, engineering, technology and operations
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Legal and regulatory compliance

Absence of key permits and licences such as:

- Operating permits from local councils for where properties have been leased
 - Certificate from the Factories' Inspectorate
 - Environmental Protection Agency (EPA) permits
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Workplan implementation

Acumen then worked with each company's management team to develop a workplan to address the challenges and barriers identified during the assessment process.

This section illustrates key findings from this exercise and recommendations for impact investors, TA providers, grant providers and other ecosystem enablers.

Key findings and recommendations

AREA	FINDING	RECOMMENDATION
Financial management	QuickBooks was the preferred financial management software among companies; however, most firms did not have the internal capacity to utilise both the online and desktop version.	Training is needed.
Permits and documentation	Uncertainty over guidelines and costs for acquiring and/or renewing EPA permits. The agency has no standardised fees list for firms, so fees must be negotiated with the agency based on arbitrary quotes.	Advocacy and engagement with the EPA by private sector intermediaries is recommended.
Governance structure	Companies are willing to adjust and enhance their governance structure. However, most need support to set up a Board of Directors and draft the appropriate policies and documentation.	Engagement of company secretarial service provider is recommended.
Capacity building	Businesses are aware of their talent gaps and, in many cases, have identified individuals to fill those roles but do not have the resources to hire such talent.	Investors should incorporate capacity building into their investment budget and/or provide TA funding.
Digitalising systems	Limited or no integration of technology in operations – especially deployment of enterprise systems such as financial or customer resource management.	Resources will be needed to fund these systems.
Monitoring, Evaluation and Learning (MEL)	Most companies will generate a strong impact as they scale; however, only a few have started measuring and reporting on impact.	Resources will be required for companies to develop and implement a system to track their impact on job creation, gender and poverty reduction.
Transactions	Most companies are at an early stage of identifying a clear growth strategy and the capital needed to achieve growth. However, expectations, including deal terms, must be adjusted before successful investor engagement.	Support for transaction advisory firms is suggested.

Recommendations on how firms can become investment-ready



Implementation of the workplan was supported by several service providers, including general business coaches and advisors, legal advisors, audit support and accounting software trainers. These providers have provided the following recommendations for catalysing the investment-readiness of SMEs.

1. The greatest achievements towards investment-readiness made by participating firms were primarily based on their level of consistent engagement with coaching and advisory service providers. While their size and traction may present challenges in the identification of 'missing middle' investors, their teams, vision, business models and products will appeal to appropriate capital providers (namely early-stage venture building investors and or impact investors).
Recommendation to firms is to remain continuously and actively engaged with service providers.
2. Firms need to take ownership to achieve key aspects of the workplans that were not completed within the project period. These include regularising filings with the Corporate Affairs Commission, developing and implementing various governance and operating policies, and renewing specific operating permits. These are tasks that each firm should be able to complete on their own with little or no external support if they are proactive.
Recommendation to firms is to be proactive in completing tasks in the workplan for which they have responsibility.

The Water and Sanitation Promotion Company: a successful case study

The Water and Sanitation Promotion Company (WaSAP) was established in 2020 and provides low-cost water, sanitation and hygiene services for people in rural Sierra Leone.

WaSAP participated in the first Acumen investment-readiness bootcamp in 2021 and was subsequently selected to participate in the second bootcamp in 2022 which focused on more targeted support for its business model. In 2021, the company had 24 employees and an annual revenue of US\$129,000. The company's main objective was to strengthen its operating capacity to position itself to attract capital and expand business operations.

The due diligence assessment carried out as part of the bootcamp identified several gaps. Firstly, there was a breach of tax regulations – no auditor's reports, no filings with the NRA – and WaSAP was struggling to utilise the online version of its financial management software, QuickBooks Online. Secondly, the assessment found no corporate policies (such as a board charter or human resources manuals).

Based on the assessment, Acumen developed a workplan and provided WaSAP with TA. This focused on three areas: finance, legal, and personnel management. Over six months, WaSAP received support for an audit of their 2020 and 2021 accounts and participated in a training workshop on QuickBooks Online. WaSAP also worked with a consulting firm to develop corporate governance policies and improved legal compliance

through the establishment of a board charter, selection of board members, and regular board meetings. Yahya Kargbo, General Manager, received business coaching on operational challenges and learned strategies for engaging international investors and donors, including thinking carefully about investor targets, what would work for them and adapting their pitch deck and other materials accordingly.

As a result, WaSAP was able to raise an initial US\$14,000 and is in conversation with several other investors. The company has diversified its customer base, now employs 26 people and generates an annual revenue of over US\$500,000 from project and retail sales. It has improved internal processes and gained crucial insights on key performance metrics and how they affect operations, profitability and sustainability.

Yahya Kargo, General Manager of WaSAP says that the process helped the company become ready for institutional investment. "It was beneficial across the board, however one of the main highlights was going through the process of due diligence which highlighted lapses in our filings with the Corporate Affairs Commission which would have deterred investors. These are now fully up-to-date and we have organisational processes and systems to ensure we remain compliant."

Invest Salone supported Acumen to engage the services of the auditor, the due diligence assessor, the consulting firm and the QuickBooks trainer through its PROSPER Salone grant facility.

Conclusion

In summary, SMEs in a nascent ecosystem like Sierra Leone require considerable pre-investment support to close critical gaps in their operating and business models. Given the absence of an angel investing

community and limited incubators/accelerators, there is a need for impact/venture capital investors to partner with grant and TA providers to offer the required support.

Annex – Investment Toolkit for SMEs in Sierra Leone

The Investment Toolkit for SMEs in Sierra Leone was produced by Acumen for Invest Salone. The toolkit is tailored to the needs of small and medium-sized enterprises in Sierra Leone and is based on insights from a series of investment-readiness bootcamps led by Acumen in 2021 and 2022, which indicated that firms in Sierra Leone require substantial pre-investment support to become viable impact investment prospects.

Please download the toolkit from the Invest Salone [Resource Bank](#).

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