PROMOTING A RESILIENT AND INCLUSIVE PRIVATE SECTOR IN FRAGILE CONTEXTS - SIERRA LEONE

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ABOUT INTELLECAP

Intellecap is a pioneer in providing innovative business solutions that help build and scale sustainable profitable enterprises dedicated to social and environmental change. Founded in 2002, the Aavishkaar - Intellecap Group now manages assests worth over USD 750 million assets and has directed over USD 1 billion of capital to entrepreneurs working on challenging problems sustainably through equity funds, venture debt vehicle, microfinance lending and investment banking intermediation. Intellecap provides a broad range of consulting, research and investment banking services to multilateral agencies, development finance institutions, social enterprises, corporations, investors, policymakers and donors. In 2017, Intellecap won the 'Impact Market Builder of the Year Award' from Global Steering Group (GSG) Chicago, a G20 Thinktank.

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ABBREVIATIONS AND ACRONYMS

AATF	Africa Agriculture Trade and Investment Fund
AATIF	The Africa Agriculture and Trade Investment Fund Agricultural Cooperative Development International/Volunteers in
ACDI-VOCA	Overseas Cooperative Assistance
ACTB	A Call to Business savings and Loans
AECF	The Africa Enterprise Challenge Fund
AECF	The Africa Enterprise Challenge Fund
AFD	The Agence Française de Développement
AFDB	African Development Bank
AFFORD-SL	The African Foundation for Development in Sierra Leone
ARI	Acute Respiratory Infections
AUM	Asset Under Management
B2B	Business to Business
B2C	Business to Consumer
BoP	Bottom of the pyramid (formally known as) Building Resources Across Communities
BRAC	Bangladesh Rehabilitation Assistance Committee Bangladesh Rural Advancement Committee
CAC	The Corporate Affairs Commission
CDC	Commonwealth Development Corporation
CECA	Western Africa Power Project
CGTMSE	The Credit Guarantee Fund Trust for Micro and Small Enterprises
DFIs	Development Finance Institutions
DFS	Digital Financial Services
DGGF	Dutch Good Growth Fund
DIB	Development Impact Bond
DSTI	The Directorate of Science, Technology and Innovation
ECOWAS	Economic Community of West African States
EEP	Sierra Leone's Energy Efficiency Policy
EoDB	Ease of Doing Business
EPA	The Environmental Protection Agency
ESOs	Ecosystem Support Organisations
EU	European Union
FBO	Farmer Based Organisation
FCDO	Foreign, Commonwealth & Development Office
FDI	Foreign Direct Investments
FI	Financial Institution
FinTech	Financial Technology
FMO	Nederlandse Financierings-Maatschappij
GDP	Gross Domestic Product
GEN	Global Entrepreneurship Network

ABBREVIATIONS AND ACRONYMS

GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GLI	Gender Lens Investing
GNI	Gross National Income
GoSL	Government of Sierra Leone
HDI	Human Developmental Index
HNI	High Net Worth Individual
HR	Human Resource
HRH	Human Resources for Health
HSSP	National Health Sector Strategic Plan
ICT	Information Communication Technology
IDA	The International Development Association
IDH	The Sustainable Trade Initiative
IFC	The International Finance Corporation
IMF	International Monetary Fund
IMO	International Organization of Migration
IT	Information Technology
KfW	(formally known) Kreditanstalt für Wiederaufbau; KfW Bankengruppe
LAPO	Lift Above Poverty Organization
LE	Leones
LOC	Line-Of-Credit
LPs	Limited Partners
M&E	Monitoring and Evaluation
MAFFS	Ministry of Agriculture, Forestry and Food Security
MASSIF	The Micro and Small Enterprise Fund
MFI	Microfinance Institutions
MGF	MIGA, through its guarantee facility
MIGA	The Multilateral Investment Guarantee Agency
MLI	Member Lending Institutions
MM4P	Mobile Money for Poor
MNO	Mobile Network Operators
MoHS	The Ministry of Health and Sanitations
MSMEs	Micro, Small, and Medium Enterprises
MTI	Macroeconomics, Trade and Investment
MTNDP	Medium-term National Development Plan
MW	Megawatt
NATP	National Agricultural Transformation Policy 2019-23
NAYCOM	National Youth Commission
NBFC	Non-banking Financial Institution
NEEAP	National Energy Efficiency Action Plan
NEXI	Nippon Export and Investment Insurance

ABBREVIATIONS AND ACRONYMS

NGOs	Non-Government Organisations
NPA	Non-Performing Assets
NSADP	The National Sustainable Agriculture Development Plan 2010-2030
NWSP	The National Water and Sanitation Policy
OARG	The Office of Administrator and Registrar-General
ODA	Overseas Developmental Assistance
OECD	The Organisation for Economic Co-operation and Development
PAYGO	Pay as you Go
PCVs	Permanent Capital Vehicles
PE/VC	Private Equity/ Venture Capital
PPP	Private Public Partnership
PSW	Private Sector Window
rAREH	Responsibility Renewable Energy Holding
RDBS	Resilient Business Development Program
RMNCAH	Reproductive, Maternal, Neonatal, Child and Adolescent Health strategy
SCADEP	Smallholder Commercialization and Agribusiness Development Project
SCP	Smallholder Commercialization Programme
SDG	Sustainable Developmental Goals
SDU	Service Delivery Unit
SHF	Smallholder Farmer
SIDA	Swedish International Development Cooperation Agency
SIDBI	Small Industrial Development Bank of India
SIFA	Stability Impact Fund
SIFA	Stability Impact Fund
SLADF	Sierra Leone Agribusiness Development Fund
SLARI	Sierra Leone Agricultural Research Institute
SLARiS	Agribusiness and Rice Value Chain Support Project
SLIEPA	Sierra Leone Investment and Export Promotion Agency
SLL	Sierra Leonean Leones
SME	Small and Medium Enterprises
SMEDA	Sierra Leone Small and Medium Enterprises Development Agency
SPV	Special Purpose Vehicle
SSA	Sub-Saharan Africa
SWA	Sanitation and Water for All
TA	Technical Assistance
TEF	Tony Elumelu Foundation
TVETs	Technical and Vocational Education and Training
UK	United Kingdom
UNCDF	The United Nations Capital Development Fund
UNDP	United Nations Developmental Program

UNICEF	United Nations Children's Fund
USAID	The United States Agency for International Development
USD	United States Dollar
UTB	Union Trust Bank
UTZ	Certification Program for Sustainable Farming of Coffee, Tea, Cocoa and Hazelnuts.
VOIP	Voice over Internet Protocol
WARC	West Africa Rice Company
WASH	Water, Sanitation, and Health
WAVF	West Africa Venture Fund
YALI	Young Africa Leaders Initiative

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EXECUTIVE SUMMARY

Until 2013, Sierra Leone was one of Africa's fastest-growing economies, led by increasing iron and ore exports. The increase was considered impressive since the country achieved exponential growth just after ten years of civil war that had immensely affected the economy. However, unfortunately, the government could not maintain the development growth pace due to the Ebola outbreak in 2014 that led to the loss of life and caused immense loss to the economy; a decline of 14.9%[1] in revenue by the end of 2014. Despite these disruptions, the country had a stable growth of around 5%[2] from 2015-2019, until Covid hit it in 2020.

The years of disruptions and disturbances have affected economic growth, and several of its social dynamics. The country's HDI value of 0.438[3] (2020) is below the average of low human development group countries (0.507) and below the Sub Saharan Africa average (0.541). Almost 15.1 % (2019) of the population is in extreme poverty, with the highest poverty levels in the rural areas, 78.5%[4]. The continuous disruptions also stagnated progress on most SDGs related to education, health, sanitation, and electricity access.

Slower progress and frequent disruptions resulted in the country becoming highly dependent on external funds and aids. The country's government debt to GDP ratio of 70% is significantly higher than the IMF's threshold of 55%[5]. Such high dependence on external aid has added to the vulnerability of the economy due to high fluctuations in aid volumes that are also affected by global scenarios, as witnessed during the recent covid crisis

The Government of Sierra Leone has been endeavouring to catalyse the growth of the country through relevant policies. For instance, 'Sierra Leone's Medium-term National Development Plan (MTNDP) 2019–2023' focuses on enhancing economic growth, improving the country's macroeconomic dynamics, and emphasising SDGs such as education and human capital development, healthcare development, as well as water and sanitation. Despite such policies, the growth has been slow primarily due to the challenges and weak implementation and governance.

One of the most common beliefs amongst the development stakeholders is the private sector's potential to catalyse economic growth. Both international and national players have agreed to the private sector's role in building stability and resilience in Sierra Leone.

The private sector landscape in Sierra Leone is dominated by micro, small, and medium enterprises (MSMEs) that employ around 70%[6] (2020) of the total workforce. However, one of the sector's critical setbacks is a high prevalence of informal and unregistered businesses. While there are various reasons for this, what is essential is that this limits the private sector's ability to contribute to economic growth. Women entrepreneurs in Sierra Leone are also crucial elements of the private sector, with almost 84% of women from rural areas and nearly 63% from urban regions operating small and micro-enterprises. Intellecap observed that while the impact enterprise space is still nascent in the country, challenges caused by a fragile economy, lack of jobs for an increasing number of graduates, and low wages for those employed have led to the emergence of impact entrepreneurship in Sierra Leone.

To gain a more in-depth understanding of the impact-focused private sector in Sierra Leone and its potential, Intellecap conducted both an in-depth literature review and detailed primary interviews with 40 enterprises from across the country. The study categorised the interviewed enterprises into three broad categories to derive improved insights:

1) Access: These include enterprises that have developed innovative solutions to facilitate access to essential products and services for the communities. Due to various disruptions, Sierra Leone populations have limited access to crucial infrastructural elements such as energy and transportation services and lacks access to financial services, affordable healthcare and quality education. Access enterprises are offering innovative solutions to address these challenges. Of the 40 enterprises interviewed, around 48% of them provided access to services. Many of these aceess enterprises are associated with existing groups/ association and adopted innovative payment mechanisms to reach the last mile. Some of the access enterprises interviewed include Easy Solar, a pay-as-you-go (PAYGO) energy company offering access to energy; Light Salone, an energy company offering solar windmill solution for rural communities; Fresh Salone, an agri enterprise offering smallholder farmers access to the export market; and Lapo finance, an MFI offering micro and small credit to rural communities and businesses.

2) Ability: These include enterprises that develop and design solutions to improve marginalised communities' incomes and purchasing power while enhancing their employability and livelihoods. Of the 40 enterprises interviewed, around 38% were offering ability services. Many of these enterprises targeted the most un/underserved communities, such as differently-abled women and youth, marginalised women from rural areas, and urban slum population. Few enterprises, while offering employment, also invested significantly in the skill development of these individuals. Some of the ability enterprises interviewed include Agro Fish Farm, a fishery enterprise that provides training to small fish farmers to scale their business; Lambano, an agri enterprise that is working with smallholder farmers to grow maise that is further processed into poultry feed enabling better prices to the producers; and Sierra Leone Women's Farmer Forum, a community-based organisation allowing women farmers to earn better prices of their produce by collective power.

3) Network and Knowledge: These include enterprises that build awareness and share information to initiate behaviour change and allow communities to reach unreachable markets. Of the 40 enterprises interviewed, around 15% were part of this category. The study observed that few enterprises used technology to share information and connect producers to market, for instance, farmers to the end consumers. Some enterprises also adopted the strategy to partner with local governments to create awareness and initiate community-based behaviour change programs. Some of the network and knowledge enterprises interviewed as part of the study include Nianda Agriculture, an agri enterprise offering training and creating awareness amongst farmers to meet export demand and incorporate traceability solutions in their value chain; Leone Plastics, a waste management enterprise that raises public awareness through programs about domestic waste disposal through mobile waste collectors and; Balmed, an agri enterprise that connects agricultural communities to the market and shares market information with the associated farmers to allow them to make informed decisions.

Having detailed discussions with the enterprises highlighted some of the private sector's critical challenges in Sierra Leone. From these, access to easy and affordable credit was the most crucial. High-interest rates charged by the banks and formal financial institutions with misaligned investors' expectations are other factors limiting private sector growth. Other challenges highlighted by the private sector actors include lack of skilled human resources, absence of business enabling environment, challenges related to foreign exchange fluctuations, and limited government support. Many enterprises also highlighted financial difficulties arising due to the ongoing global pandemic.

To develop a holistic understanding of the country's impact sector, Intellecap undertook an in-depth analysis of the impact investment landscape as part of the study. It undertook an in-depth literature review and detailed interviews with 17 industry stakeholders, including investors and ecosystem enablers. According to the research, there is a significant mismatch between demand and supply of impact capital in Sierra Leone. The demand market is significantly higher than the supply, more so for the SME segment. Between 2005 and 2019, Sierra Leone is estimated to have received USD 775 million in impact capital, from which the majority (59.5%) is contributed by development finance institutions (DFIs).

The study mapped 9 DFIs, including IFC, Proparco, FMO, CDC, MIGA, AFDB, KfW, Norfund, and Finnfund. Around 70% of the total number of deals (25) were in agriculture and agro-processing (including forestry), energy, and financial services. Debt and equity followed by guarantee were the most commonly used investment instruments by DFIs invested in Sierra Leone between 2005 and 2019. Guarantee and political risk insurance is yet another tool adopted by DFIs for investment in Sierra Leone. High political risk in the country discourages many investors; this instrument helps cover investors' risk and ensures adequate capital for enterprises. Technical assistance is another tool used by DFIs to help businesses streamline their strategies and develop their skills.

Donors such as the World Bank, FCDO, USAID, GIZ, and IDA invested around USD 151 million between 2005 and 2019. Of the total number of deals(12), most donors funded the agri and agro-processing (42%) sector, while others (33%) adopted a multi-sector approach. The majority of donor investments were in the form of grants for technical assistance, followed by equity/debt impact investments.

Regarding private impact fund managers, the study found that around 13 such investors have invested around USD 163.1 million between 2005-2019. Some of the active private fund managers in Sierra Leone include Manocap, WAVF, Cordaid, Arbaro Fund, Gaia Impact Fund, SIMA Fund, Acumen, and Trine. These private fund managers directed most of the capital towards SMEs. Like other investor groups, private fund managers also channelled their funds primarily to agri and agro-processing and energy sector that had almost 61.1% of total deals during 2005-2019. Equity seems to be the preferred form of investment, with 50% of the total deals (18) in this form. Few private fund managers also offer TA service and impact investments that have built the investors' portfolio pipeline and helped investors identify relevant sectors and business maturity levels. Partnering with local actors was also seen as a strategy adopted by global investors to ease navigation through the state's complexities.

Investors highlighted a few intriguing challenges that can be considered as reasons for the limited flow of private capital in the country. High macroeconomic and political risk and related currency risk are the most common obstacles cited by investors. Other challenges include lack of country-level data and context due to limited research pieces and credible aggregated data sources. The shortage of skilled and competent entrepreneurs and an inadequate business support environment also kept many investors at bay. Lastly, the reluctance of many entrepreneurs to part away with equity holding have also limited such investments.

While Sierra Leone is one of the most open economies for investment amongst the FCV countries, there is still low investments due to real risks. Government is encouraging private investments in the country by easing procedures and processes for foreign investors. Despite this, the country lags behind its regional counterparts in parameters such as 'ease of doing business'. Even though the entrepreneurial ecosystem is gradually developing in the country with initiatives such as Innovation axis, AL Agcelerator and organisations such as Aurora Foundation and Tony Elumelu Foundation offer support primarily to the newer enterprises by providing them TA support.

Innovative investment mechanisms can mitigate the real risks of investing in fragile countries while ensuring returns to investors and benefits. Many global organisations, DFIs, donors, and private impact investors have already started to find alternate ways of investing in these geographies; some of such models are i) offering a guarantee or political risk insurance cover to investors, ii) use of instruments such as mezzanine debt and returnable grant iii) providing concessional capital to financial institutions that provide credit to MSMEs and, iv) offering technical assistance to enterprises to build investable pipeline. Direct investments to sectors that can support private sector growth such as Information Communication Technologies (ICT), power, road and other transport, and Digital Financial Services (DFS) is another indirect way of promoting the private sector in these countries. Intellecap in the study discusses three models that can work in Sierra Leone given the context. These are a) Result based financing, b) Non-collateralised debt facility, c) Bridging the financing gap through Fintech models.

RECOMMENDED MODELS

1	2	3
Result Based Financing	Non collateralized debt facility	Bridging the financing gap through Fintech models
Mechanism where a portion of funds are linked to completion of pre-specified outcome, or any other performance measure	Leveraging non collateralized debt instruments to target micro and small private enterprises	Leveraging fintech for credit assessment of MSME's in case of lack of financial records
Example: Impact bond launched by World Bank, UN Women Small Industrial Development Bank of India (SIDBI) to enable access to finance women entrepreneurs	Example: Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTM-SE) a collateral free loan facility for MSMES in India	Example: Nigerian-based Lidiya fintech platform that provides easy online application process for small and medium enterprises

While these models might face some limitations such as complex administration, high cost of implementation, increased dependence on the third party, and legal and regulatory challenges, the recommended models overcome the contextual obstacles for both investors and enterprises. A few of the critical success factors for these models would include policy advocacy, having a competent and skilled on-ground implementation team, and developing effective monitoring and evaluation mechanisms.

BACKGROUND AND MOTIVATION OF RESEARCH

To showcase business and investment opportunities in fragile countries, there is a need to bridge the knowledge gap & create an opportunity mapping. There is still very limited information available on the social entrepreneurship ecosystems in fragile countries. More so, in-depth mapping on the various sectors and stakeholders involved is almost non-existent. The provision of key data points and insights, can shed light on the investment opportunities in these countries. Although private sector investments are currently low, their economies are growing and ripe for anyone willing to take the risk to invest. Data aggregation and digitization can go a long way in bridging the information gap and make it easier to create beneficial interventions in these countries.

> *Impact investment are investments made with the intention to generate positive, measurable social and enviromental impact alongside a financial return.*

This research report seeks to provide insights into the current state of the impact investing and entrepreneurship ecosystem in Sierra Leone and recommendations on impact investment models and ecosystem building strategies to build a resilient and inclusive private sector in Sierra Leone. The report maps the activities by a diverse pool of impact investors across Sierra Leone and highlights opportunities to increase the impact of capital flowing into the private sector. It also provides an assessment of the stakeholders requiring social capital, such as social enterprises, and the ecosystem enablers in the social investment sector. This report is part of a series of three reports, where the other two reports focus on other fragile and transition countries in Africa i.e. Somalia and Mozambique.

REPORT STRUCTURE

The report is organised in six chapters. In Chapter 1, the report introduces the reader the context of Sierra Leone's economy in regards to fragility and conflict. Chapter 2 provides an overview of the private sector in Sierra Leone and its relevance for the growth of the country. The findings and case studies from the social enterprises are laid out in Chapter 3. An in-depth examination of the different categories of impact investors active in the region, and their investment strategies and trends are provided in Chapter 4. An assessment of the enabling ecosystem, including regulation and business support services, is provided in Chapter 5. And finally, Chapter 6 provides recommendations and three innovative impact models that can promote resilient and inclusive private sector in Sierra Leone.

RESEARCH METHODOLOGY (DATA COLLECTION & ANALYSIS)

The report presents both qualitative and quantitative insights generated from secondary and primary research sources. The study leveraged concurrent triangulation, which is a mixed-method approach involving a collection of qualitative and quantitative information from structured interviews and ongoing secondary research.

a) Selection of three fragile countries for research - The research team established a 'selection framework' to identify three fragile economies that will be focused on in this study. The team followed a mix of quantitative and qualitative approaches to identify the target countries for the study. The process began with data collection on various parameters for all 54 countries across Africa. The countries were then filtered and selected based on parameters, including GDP per capita, fragility, and domestic credit to the private sector.

- The first filter in the selection framework included 'GDP per capita'; the countries were arranged as per their GDP per capita. It helped the team to arrive at a list of top economically weak countries from the continent.

- The second filter used was the 'Fragility ranking (OECD)' to identify the countries based on their fragility degree. The OECD index is a combination of each country's political, societal, economic, environmental, and security situation.

- The third filter applied to the remaining countries was of the 'domestic credit to the private sector' (as a percentage of GDP). This parameter highlighted the amount of credit available for the private sector. Domestic credit to the private sector refers to financial resources provided to the private sector by financial entities through loans, equities, trade credits, and accounts receivables. It is crucial for developing the private sector as a lack of financing is often cited as a significant challenge in the ease of doing business in each country.

- The final filtration criteria were a qualitative determination, including the level of impact enterprise activity and the need to develop the country's private sector.

Using the above selection framework, the team selected Somalia, Sierra Leone, and Mozambique as three focus countries for this research.

b) Literature review/Desktop Research: Secondary research was undertaken at the onset of the research to (i) provide an understanding of the macroeconomic and demographic context of the focus countries and identify key development gaps/challenges facing these countries, (ii) evaluate existing research on the impact investment industry and outline key research gaps, (iii) demand-side research on the prevalence of entrepreneurs, presence of formal versus informal businesses, women-owned enterprises, gaps in access to capital, and indicators of 'need' (ecosystem support, infrastructure, supportive policies, etc.) and, finally (iv) compile a list of active players in the supply, demand and ecosystem level to be engaged for primary research. The data gathered helped shape the primary research tools e.g., questionnaires and discussion guides. The team also developed ethical and security protocols for the fieldwork in each of the selected countries.

c) Stakeholder interviews: Existing work was cross-referenced with primary research to corroborate findings, identify opportunities to ask more profound questions during interviews, or both. The report relies heavily on insights from one-on-one interviews conducted with 59 stakeholders in the country, including impact investors such as DFIs, foundations, donors, and impact investors; demand-side players including the private sector and social enterprises; and ecosystem enablers such as incubators, accelerators, professional service providers/firms, research and academia. These interviews aimed to collect quantitative (investment activity data) and qualitative information on investment deployment strategies of different investors, partnerships established, key challenges facing the investors, and their perception of the country. Further, interviews with the demand side players were conducted to identify critical financial and non-financial needs, while interviews with ecosystem enablers provided insights on the type of support offered to the sector and key gaps in organizational support. Annexure III present a full list of stakeholder interviewed from Sierra Leone. While the team spoke to most of the investors, donors and ecosystem enablers active in the country, it selected 30 enterprises to be part of the research. These enterprises were selected from various impact sectors, including agriculture, clean energy, healthcare, financial inclusion, etc. Special attention was paid for enterprise selection, ensuring selected enterprises are of different sizes, providing different type of services, operating across various regions of the country and having women representation in the leadership, to include diverse set of enterprises which are representative to great extent of the private sector in Sierra Leone and provide an understanding of the overall ecosystem in the country.

d) Impact investment deal mapping: To collect data for the impact investment deals in the country, the research team examined publicly available information, evaluated investor websites, and reviewed press releases. Throughout the report, the research team incorporated highlights from its desk research to complement primary findings.

The research team synthesized all the information gathered through desktop research and primary interviews to derive country-level insights presented in this report. The research team will like to emphasize that while the data collected is non-exhaustive, it sufficiently provides directional guidance for the trends reported in this section.

01

CONTEXT TO SIERRA LEONE’S ECONOMY – THE FRAGILITY AND CONFLICT

Sierra Leone's economy has recorded mixed performance in the last decade driven by volatility in commodity prices as well as the Ebola crisis. At the beginning of the decade, Sierra Leone witnessed continued economic growth, emerging as one of the fastest-growing economies in 2013 with a record high of 20%[1] real Gross Domestic Product (GDP) growth primarily driven by commodity (iron and ore) exports. The country witnessed this growth barely ten years after the civil war that ended in 2002 and brought its economic infrastructure down to zero. However, the Ebola outbreak in 2014 offset the recovery efforts, with the economy falling into a recession in 2015. The country's economy has been recovering in recent years, with a 5%[2] average annual growth in the last four years driven by sectoral growth from agriculture, mining, and construction. The IMF expects that GDP for 2020 will fall to -2.3% due to the Covid pandemic and rise to 4%[3] in 2021 due to post-pandemic global economic recovery.

Figure 1: GDP growth (annual %) and GDP per capita (USD)

Source: World Bank

Impact of the civil war (1990-2002) on Sierra Leone's Economy

The country's civil war from 1990 to 2002 was one of the worst disruptions that caused damage to property, loss of around 70,000 lives and left 2.6 million people displaced[4]. The civil war also severely affected the country's economic growth and caused the out-migration of many experienced and skilled individuals that left for nearby countries and others to the US and afar[5]. It also led to high external debt, with the government relying on external sources of funds. In 2002, the external debt was soaring to around 115%[6] (of Gross National Income).

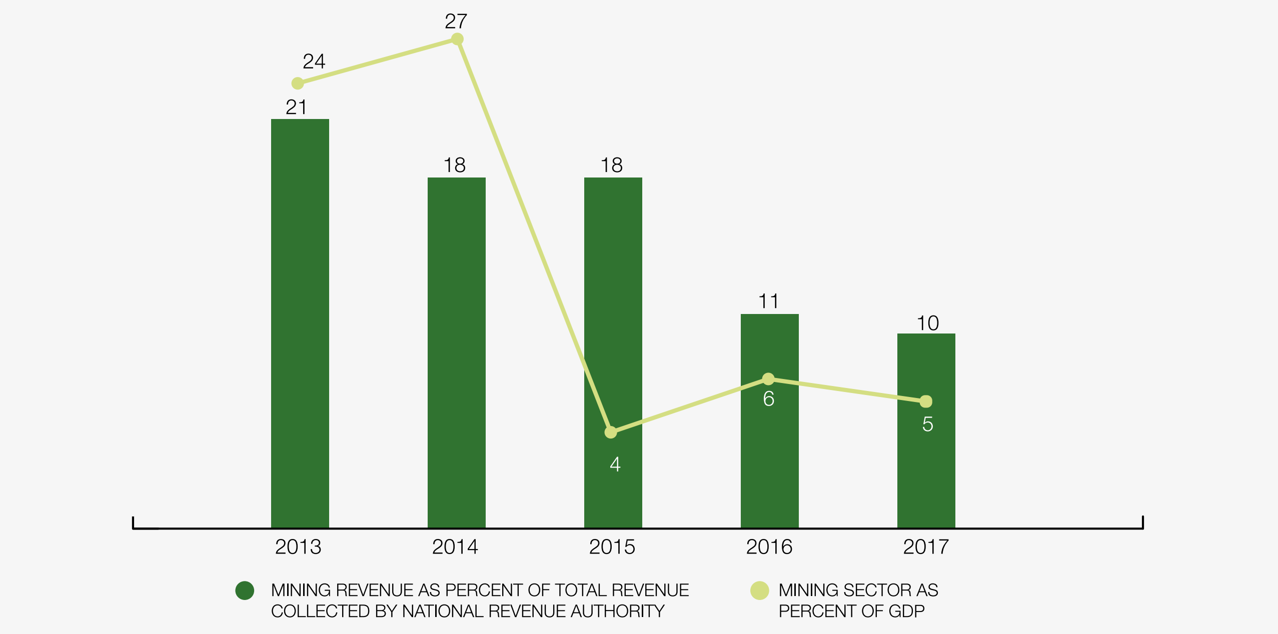
Impact of the Ebola crisis of 2014 on Sierra Leone's Economy

Post-war, while the country was on the path of recovery, it faced yet another severe setback due to the Ebola outbreak in 2014. The episode led to the loss of lives of around 5,000 people[7]. A World Bank report estimated the overall impact of the crisis on Sierra Leone's economy to be about USD 1.9 billion, the highest amongst other affected countries (USD 600 million for Guinea and USD 300 million for Liberia)[8]. Some studies estimated a decline of 14.9%[9] in revenue by the end of 2014.

The agriculture sector dominates the country's economy and accounts for a large proportion of GDP and employment. The industry accounted for 54.3%[10] of GDP (2019) and employed around 54.9%[11] of the country's working population, making it one of the primary growth drivers. Other key sectors include services and industry with GDP contribution of 31.1%[12] and 5.2%[13] and employment contribution of 38.6%[14] and 6.5%[15] respectively. The export and capital intensive mining sector leads the country's economic growth by almost 5% contribution to GDP and accounts for nearly 10%[16] of total country revenue[17]. The government acknowledges that shifting the focus to more labour-intensive[18] sectors such as agriculture is crucial for sustainable growth and development.

Spotlight: Mining Sector in Sierra Leone

The mining sector has been the mainstay of the Sierra Leon economy since its independence in 1961. The country has vast endowments of rich minerals and ore such as diamonds, iron ore, bauxite, rutile, ilmenite, zircon, gold, platinum, tantalite, chromite, and columbite. The mining industry has been significant to the economy; however, its contribution to the economy has declined significantly after the Ebola crisis from 24% in 2013 to 5% in 2017[a]. The fall in commodity prices in 2014, affecting the country's foreign exchange earnings, led to this decline. Despite this decline, the average sector contribution to the GDP was still significant at 16%[b] during 2013-17. The sector is dominated by large-scale iron ore producers, diamonds, rutile, and bauxite and small-scale and artisanal gold and diamonds mining. In 2019, a study estimated that the extractive sector directly employed around 30,000 Sierra Leoneans (1.5% of total employed), with about 300,000[c] people deriving their livelihood from the mines. The mining sector is considered crucial for economic development because of its linkages to infrastructure development, local content, and downstream processes.



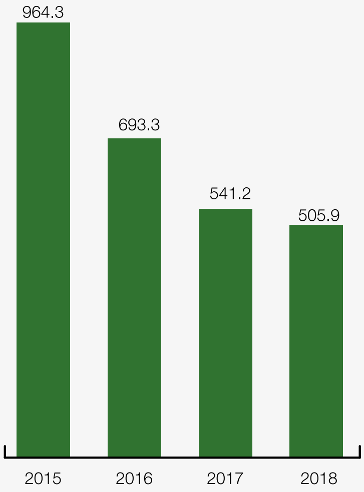
Source: Sierra Leone Extractive Industries Transparency Initiative (SLEITI)

Sierra Leone is stagnating in achieving most of the Sustainable Development Goals (SDGs) with multiple development challenges facing the country. The country's poverty rate remains high – with its overall poverty headcount ratio[19] being 56.8%, while the population in extreme poverty[20] being 15.1%[21]. Poverty levels are highest in the rural areas at 78.5%[22]. Although the country has moved up in the HDI[23] ranking from 184 in 2018 to 181 in 2020 (out of 189 countries)[24], it is still significantly low. The country's HDI value of 0.438[25] is below the average of 0.507 for countries in the low human development group and below the Sub Saharan Africa average of 0.541[26]. Additionally, ranked 34 out of 52 countries in the 2020 Africa SDG index ranking, Sierra Leone faces significant challenges in implementing the SDGs. None of the SDGs, so far, has been achieved, with the country lagging notably in SDG 1-9[27].

[a] *Overview, EITI, Feb 2021; https://eiti.org/sierra-leone#overview*
[b] *Overview, EITI, Feb 2021; https://eiti.org/sierra-leone#overview*
[c] *Sierra Leone Extractive Industries Transparency Initiative (SLEITI), SLEITI 2017-2018 Report, December 2019; https://eiti.org/files/documents/final_sleiti_report_for_2017_and_2018.pdf*

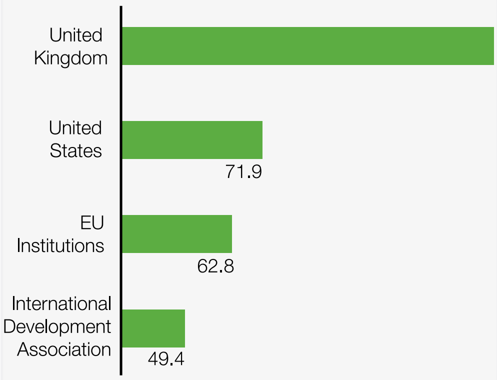
With constrained domestic resources, the country relies heavily on external funding to solve development challenges. In 2018, tax revenue (% of GDP) was 10.5% in the country than the SSA average of 19%[28]. The lower tax revenue has resulted in high external borrowing with a government debt to GDP ratio of 70%[29], which is higher than the International Monetary Fund (IMF) threshold of 55%.

Figure 2: Net ODA (USD Million)



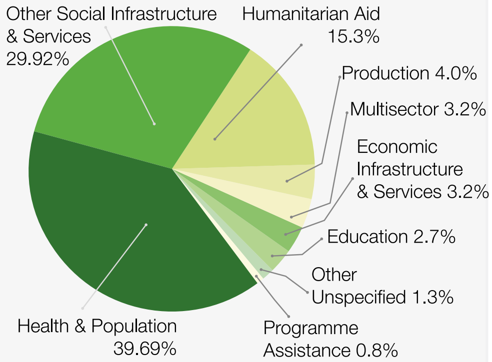
Source: OECD

Figure 3: Top Donors of Gross ODA for Sierra Leone, 2017-18 average, USD million



Source: OECD

Figure 4: Bilateral ODA by sector for Sierra Leone, 2017-18 average

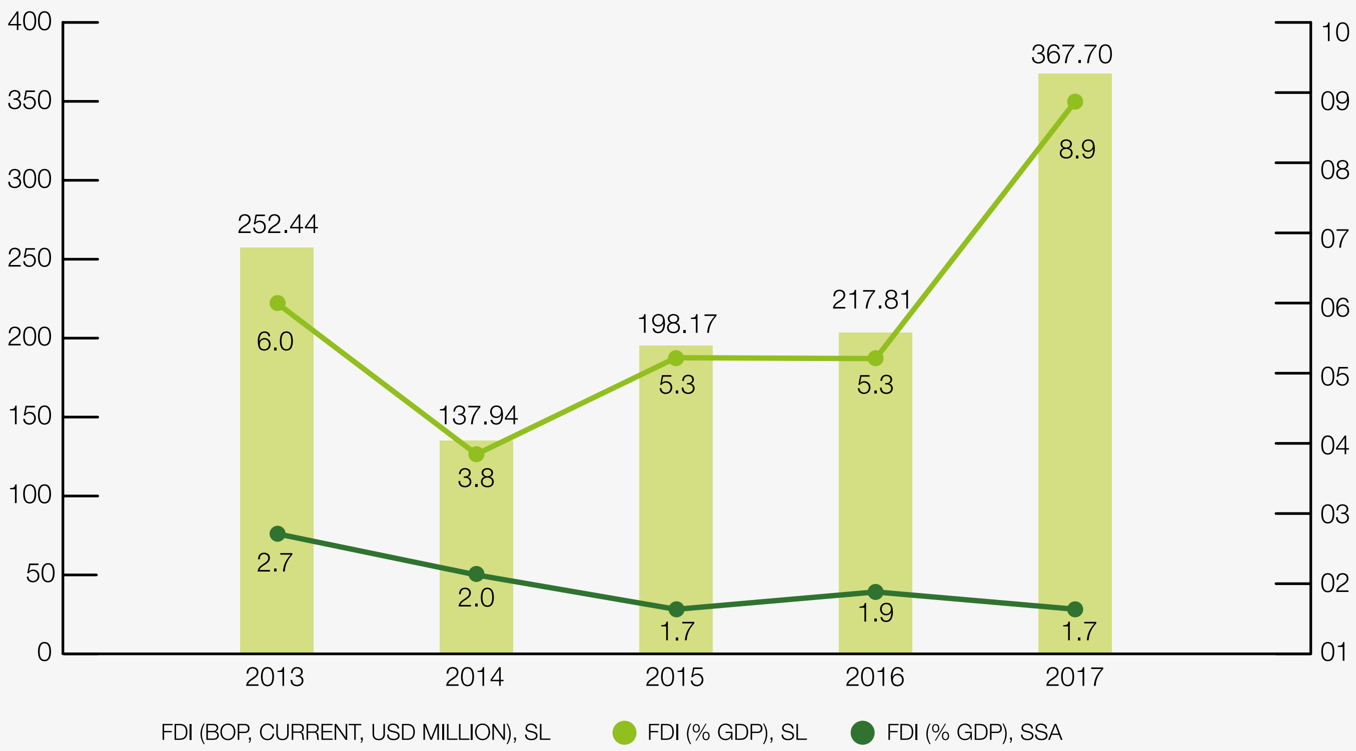


Source: OECD

While donor funding remains one of the largest external financing sources, it had exhibited a declining trend in the last four years, from USD 946 million in 2015 to USD 506 million in 2018. Donor funding has also primarily focused on rebuilding the health infrastructure (39.7%)[30], leaving significant gaps in other social sectors. A considerable proportion (15.3%) of this funding has also been for humanitarian aid. Such a high level of dependency on aid increases the economy's vulnerability due to aid volumes fluctuations.

Foreign Direct Investments (FDI), while crucial to the economy, have mainly focused on non-impact sectors. The country has also faced volatility in FDI inflows in the last decade. After a consistent growth in FDI inflows until 2011, the country witnessed a significant slowdown post-Ebola outbreak until 2016. However, inflows have been recording a constant rise in recent years with increased investors' diversification, with China currently being the principal investor[31]. The continued depreciation of the exchange rate – by 47% between 2016 and 2019[32]– is, however, expected to slow down the growth of FDI in the coming years. Foreign investors have primarily focused on natural resources (oil and gas), mining, infrastructure, energy (including renewables), tourism, agriculture and fisheries. The role of FDI is unarguably critical in sustaining the economy's recovery by attracting private capital into the country, specifically targeting the development sector.

Figure 5: Foreign direct investment, BoP current (USD million) and net inflows (% of GDP) for Sierra Leone (SL) and net inflows (% of GDP) for Sub Saharan Africa (SSA)



Source: World Bank

To rebuild the economy, progress in the SDGs and promote growth in key sectors, the government has put together a national development plan. Sierra Leone's Medium-term National Development Plan (MTNDP) 2019–2023 seeks to address critical macroeconomic weaknesses and enhance economic growth to meet the revised target of achieving the status of 'middle-income country status' by 2039. In line with the SDGs, the plan places significant focus on critical sectors such as; education and human capital development, healthcare development, water and sanitation, employment and youth empowerment, housing and energy infrastructure (chapter 5 discusses the national and sectoral plans in detail). The government recognises the private sector's role to achieve national plans and SDGs and significantly focuses on improving governance and accountability to foster private sector growth and investments.

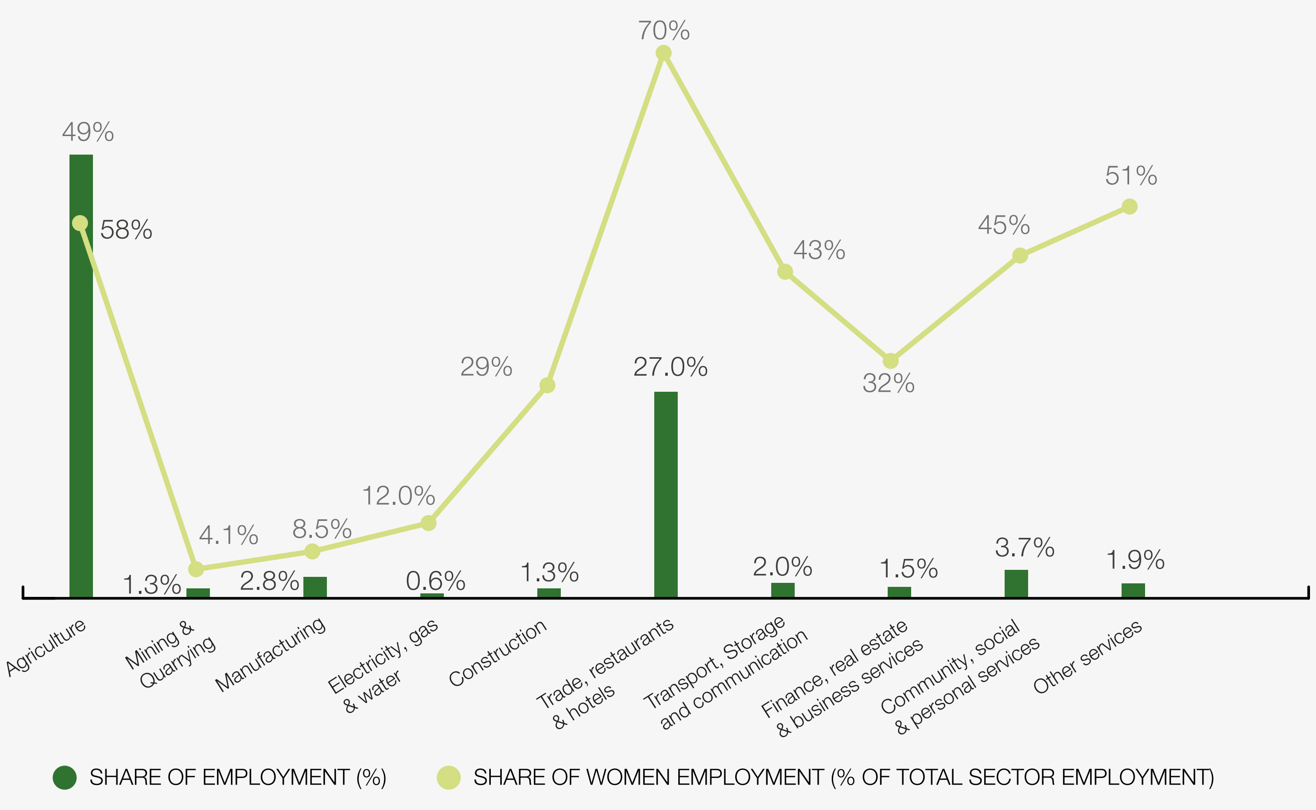
02

THE LANDSCAPE OF PRIVATE SECTOR IN SIERRA LEONE & ITS RELEVANCE FOR THE GROWTH OF THE COUNTRY

International and local private sector businesses play a critical role in building Sierra Leone's economic stability and resilience. These businesses help society come out of the poverty trap, reduce dependency on aid, and create numerous opportunities for the country to sustain or minimise the effects of external shocks. The early years of the post-conflict era witnessed propulsion in the country's private sector due to the prevailing vision of business-led growth and development. At the end of the conflict period, Sierra Leone was already a difficult place to do business with enterprises struggling with a lack of adequate access to capital and sub-optimal infrastructure. This was worsened after the Ebola crisis, which left many enterprises in distress[33]. With economic progress, there has been a significant reduction in private sector development constraints in the form of ease of regulations and focus on supporting sectors such as agriculture, transportation, tourism, and energy (key regulations are discussed in detail in chapter 5).

The country's private sector is characterised by a large informal sector dominated by Micro, Small and Medium Enterprises (MSMEs). The MSME sector employs around 70% of the total workforce[34]. The MSME sector's main activities include food and agro-processing, light manufacturing for the local market, tourism, and trade. There is a high prevalence of informal or unregistered businesses in the country, with only about 2,300[35] enterprises formally registered until 2017. Apart from other factors such as the high cost of business registration and complex procedures, lack of skilled labour also limits the development of formal sectors such as manufacturing.

Figure 6: Employment by sector in Sierra Leone, 2020



Source: ILO

The high unemployment rate in the country has increased self-employment (entrepreneurship), especially amongst youth. The country's labour force participation rate[36] has declined meagerly from 64% in 2000 to 58% in 2020, slightly lower than the Western Africa average (60%)[37]. In 2018, informal employment accounted for almost 86[38] of the total employment. Over the past few years, there has been a gradual rise in the younger population, otherwise under or un-employed, preferring to start their own business. Many argue that this indicates low formal job opportunities (especially for the youth), forcing them into 'self-employment'. In 2020, around 88.6% of the total population was self-employed, with 94% self-employed female and 82.5%[39] self-employed male. Challenges caused by a fragile economy, lack of jobs for an increasing number of graduates, and low wages for those employed have led to the emergence of entrepreneurship in Sierra Leone.

Table 1: Employment-to-population ratio, Age and Sex Distribution, 2020

Sex	Age: Total (15+) and Youth (15-24)	Sierra Leone	Western Africa
Men	Total	58%	65%
	Youth	23%	37%
Women	Total	57%	54%
	Youth	33%	31%
Total	Total	58%	60%
	Youth	28%	34%

Source: ILO

Women in Sierra Leone have traditionally been engaged in low-income activities such as informal petty trading[40] and small-scale livestock and farming. The latest World Bank enterprise survey (2017) reveals that firms, in Sierra Leone, with women as owners[41] (18.8%) is lower than the SSA average (31.8%) and lower than the low-income country average (27.6%)[42]. Around 84% of rural women and 63% of urban women operate micro-enterprises such as small-scale farming, tabletop trading, artisanal mining, and small-scale fishing[43].

Discussed below are some of the country's critical impact sectors and business activities therein:

AGRICULTURE

Agriculture in Sierra Leone employs a significant percentage of the population. The sector has around 59% of the total 'self-employed' population (80% of the entire workforce) in subsistence agriculture, with women supplying over 49%[44] of farm labour. Despite this, the country's domestic production is insufficient to meet the domestic demand and thus is heavily dependent on imports. The country imports almost 28%[45] of food for domestic consumption. The country still lags in the progress towards SDG 2 related to Zero hunger. In efforts to overcome the challenges, Sierra Leone's Government has launched multiple initiatives to support the private agribusiness sector (discussed in detail in Chapter 5). Despite the efforts, the country's agri enterprises are still not competitive in terms of price and quality and rely significantly on the donor for operational support. Few probable reasons for this are the high cost of inputs, lack of management and technical skills of entrepreneurs, poor transport infrastructure, absence of farm infrastructure (storage facilities, primary processing and collection centres) and limited access to finance for small and medium enterprises. There is also a gap between the government's policies and initiatives and the actual implementation. For instance, agencies such as Sierra Leone Investment and Export Promotion Agency (SLIEPA) and the Bureau of Standards that offer technical training and support to farmers and agribusinesses are overtly understaffed and under-budgeted[46], limiting their capacity to overcome challenges of the sector. Given the recent Covid- 19 pandemic, the country's food supply is under tremendous pressure due to constrained imports. This is likely to give rise to new innovative solutions from the private sector that would need nurturing and support in the form of technical and financial investments.

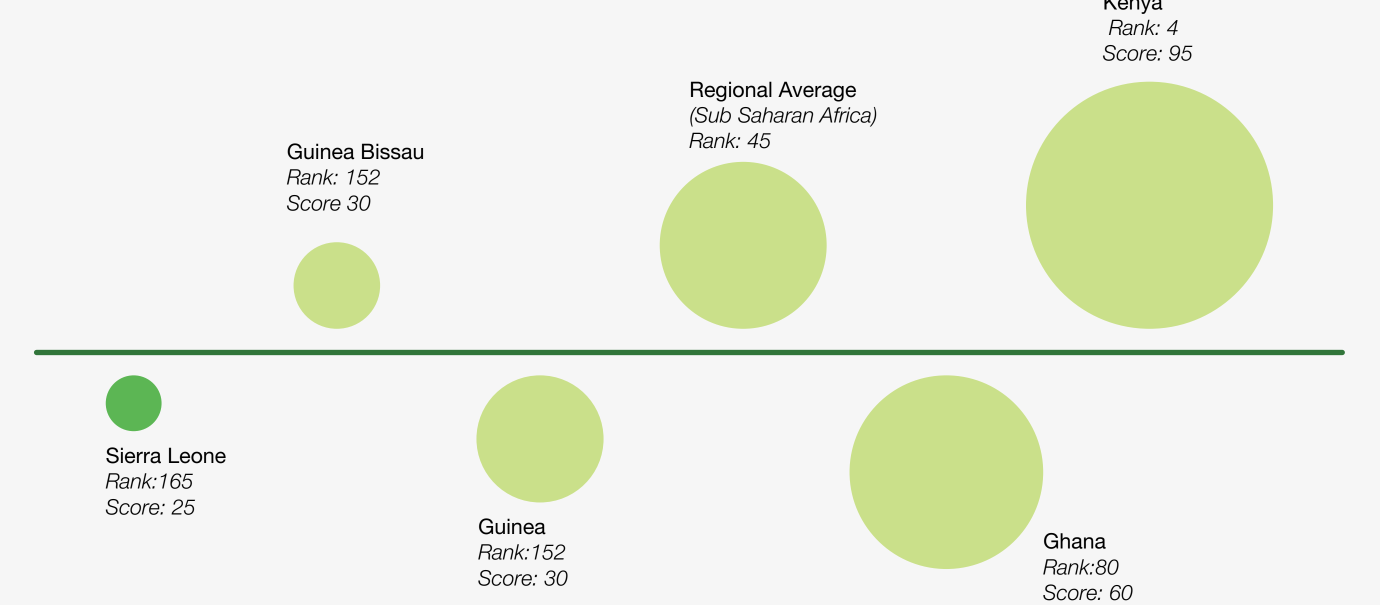
FINANCIAL SERVICES

Around 87%[47] of the economically active population (mostly residing in rural areas) does not have access to formal finance. This is partially because Sierra Leone is primarily a cash-based economy, with only about 8% of women and 15% of men (2018) having bank accounts[48]. Provision of formal financial services in Sierra Leone has been concentrated in the Western Province with more than 50% of the region's bank branches[49]. Service providers lack incentives to expand their presence and portfolio of services to other locations due to small markets with dispersed populations and limited awareness levels. The absence of borrowers' trust in non-cash payment, i.e., digital financial services (DFS) and electronic money, has limited financial service providers expanding to such regions. Freetown from the western area has been the hub for economic and financial activities in Sierra Leone while housing 15% of the country's total population[50]. This is also the reason why much of the formalised private sector activity is concentrated around Freetown.

In 2019, a study estimated that the overall domestic credit to the private sector was around 6%[51] of the GDP supplied mainly by banks, with 12[52] commercial banks operating in the country. Rural businesses have a large dependence on Microfinance Institutions (MFIs). Until 2019-20, Sierra Leone had around 15 credit-only MFIs, three deposit-taking MFIs, and 17 community banks[53] operating in the country, primarily serving the rural population. These institutions also act as the key actors in ensuring financial awareness amongst the rural population[54]. The reach of such financial institutions is limited, despite their presence. Consequentially, a large majority of the population rely on informal sources of credit. With poor access to basic banking services such as savings accounts, the market for other financial products like credit and insurance remains underdeveloped in Sierra Leone. However, with rapid mobile phone penetration, the country is witnessing increasing digital financial services (DFS) and is becoming more mainstream. In 2018, there were about 11 DFS providers in Sierra Leone (9 banks and 2 Mobile Network Operators (MNOs)). MNOs dominate the market, with 72%[55] of the total active DFS accounts Mobile Network Operators (MNOs)).

Inadequate oversight and supervision of the financial institutions, weak regulations, and high prevalence of corruption have contributed to the low financial uptake. The country ranked 165 in the 'getting credit'[56] parameter indicating vulnerable credit reporting systems and the collateral and bankruptcy laws relating to lending. Sierra Leone scored 25 in the overall parameter (strength of legal rights index[57] and the depth of credit information index[58]), which is lowest amongst comparable countries such as Guinea -Bissa[59]. The National Strategy for Financial Inclusion (NSFI) launched in 2017 (discussed in detail in chapter 5), emphasises making financial services available, accessible, and affordable to all Sierra Leoneans and MSMEs and support inclusive and resilient private sector-led growth. Sierra Leone's government is also working towards developing digital financial solutions to include smallholder farmers into mainstream services. In line with these objectives, the government is also set to revise its mobile money guidelines. The end consumers and service provider/ social enterprises offering mobile-based services are expected to benefit from the change in policies.

Figure 7: Getting Credit in Sierra Leone comparable economies



ENERGY

Sierra Leone has one of the lowest energy access rates in the world[60]***.*** In 2019, only about 16%[61] of the total population and 6.4%[62] of the rural population had access to electricity. Almost 90% of the 172,000[63] customers with access to electricity were located in the urban parts of Freetown. The low energy access levels in rural areas are primarily due to transmission challenges. The country's energy needs are hugely under-served, with about 100 MW[64] of installed power capacity until 2019-20. Recognizing the inadequacies, the government aims to increase renewable energy (solar and hydro) contribution capacities. The government also targets to increase its energy transmission from 25% (2019) to 60% by 2023[65]. Despite a strong commitment by the government to improve energy capacities, there have been limited investments and private sector participation in the sector. Securing affordable risk capital has been identified as a critical challenge primarily for renewable energy (off-grid in most cases) providers. Thus, the government aims to promote the sector through its initiatives such as developing a comprehensive regulatory framework for mini-grid developers, promoting investments through financial incentives to investors in the renewable industry, and inviting independent foreign power producers.

HEALTH CARE

Ebola outbreak overly burdened and weekend the already weak healthcare system in Sierra Leone. The country faces significant challenges towards achieving SDG 3(Good Health and Well Being) targets with pressing challenges such as high child mortality, increased malnutrition, and increasing spread of non-communicable diseases. The indicator for life expectancy at birth improved by 16.1 years[66] between 1990 and 2019. Despite the progress, it was much lower than in peer countries such as Burundi (61.6) and Guinea (61.6)[67] in 2019. In 2020, the country's maternal mortality ratio[68] was among the highest globally at 1,120, significantly higher than the average for low-income countries (571.8[69]).

There are inequities in access to health services and outcomes between districts and income levels, whilst extreme poverty prevents many from accessing primary healthcare. The Government has launched plans such as the National Health Strategic Plan, Reproductive, Maternal, Neonatal, Child and Adolescent Health (RMNCAH) strategy, and Human Resources for Health (HRH) that target SDG 3 (discussed in detail in chapter 5). However, the healthcare system still faces tremendous challenges. Some of the causes for these are insufficient skilled human resources, underfunded projects and initiatives, and lack of required infrastructure and supplies to health facilities. Moreover, the system of collecting and processing health-related data is underdeveloped in the country.

Notably, there is a considerable gap in knowledge and data on the private sector for healthcare in Sierra Leone, even though it is an essential provider of healthcare services. There are an estimated 45 private clinics and 27 private hospitals in the country, mostly based in the Freetown area. Private participation in the sector can help improve data collection and management and encourage more modern technologies. Sierra Leone represents an excellent opportunity for regional and international enterprises in the health sector to expand to the country. International organizations such as the World Bank support the cause by launching programs such as the USD 15 million[70] Health Service Delivery and System Support Program supporting enterprises investing in the health sector.

EDUCATION

Sierra Leone significantly lags in the achievement of SDG 4 related to quality education. Education is free and compulsory for six years of primary school and three years of junior secondary school in public institutions. The education system, however, remains constrained, lacking adequate infrastructure and teaching resources. There are 5,931 primary schools, 888 junior secondary schools, and 208[71] senior secondary schools (2013). Although there are many better equipped private schools, most of them focus on profit and are thus unaffordable by many. In terms of skilling programs through TVETs, the sector is positively supply-driven; however, it is mostly under-resourced with sub-optimal quality. The private sector's dominance in schooling has also created an urban-rural education divide, with skilling considered as a resort only for dropouts. Though the enrolment rates in higher education improved until 2011, the sector has been negatively affected by inadequate financing, limited staff training opportunities, ailing research infrastructure and the lack of an effective quality management system. According to an IMF study, improvement in education quality and reach can boost the GDP by 50%[72]. This places emphasis on the need for structures that can enhance the quality and affordability of education. The Education Sector Plan 2018-20 aims to improve service delivery, reduce malpractices in the sector, improve learning through higher rate, and streamline the private sector's role in the sector.

WATER AND SANITATION (WASH)

A significant population of Sierra Leones lacks access to essential water and sanitation services, with multiple challenges in achieving SDG 6. Of the total population, only about 16% have access to vital sanitation services, only 42%[73] have access to essential water services, and about 28% of the population practice open defecation. Lack of proper access to water and sanitation has resulted in a high incidence of diseases such as diarrhoea and acute respiratory infections (ARI).

The government is working to improve the state of WASH in the country with the sector outlined in the medium-term national development plan (2019 – 2023). In its efforts to improve WASH services in the country, the government joined Sanitation and Water for All (SWA) in 2010. During the last decade, the government partnered with multiple civil society organisations intending to attain its SDG 6 commitments. In 2017, the government launched an interactive WASH data portal as a joint initiative by the Ministry of Water Resources. The portal aims to simplify the sector's data for the convenience of all stakeholders working in the industry.

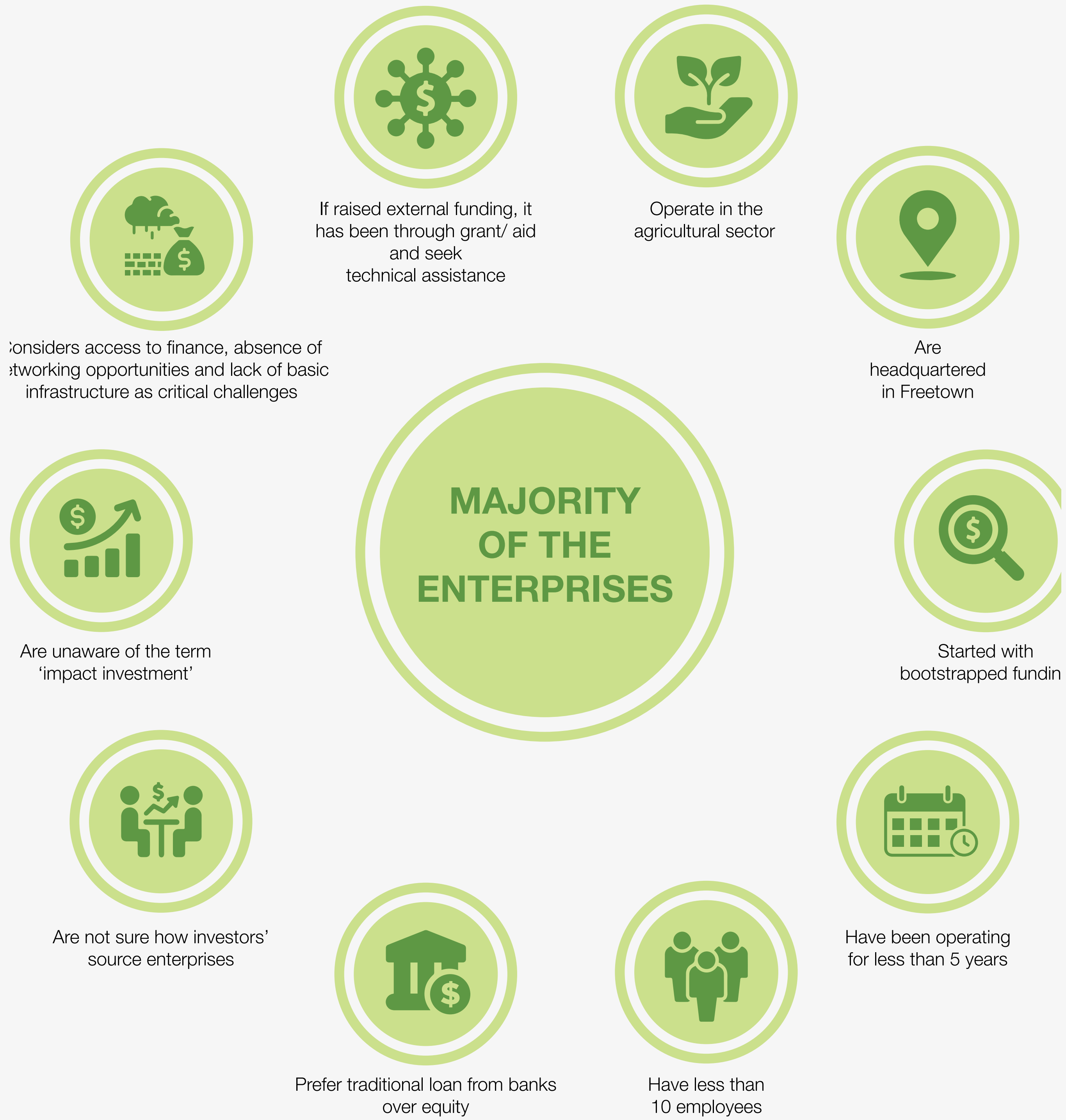
Private sector participation in WASH can result in direct and indirect benefits. The National Water and Sanitation Policy (NWSP) and the Rural and Small Towns Strategy also emphasize the role of the private sector in WASH and a need to strengthen its capacity in aspects such as 'water systems and water point construction, the supply of materials and parts, and providing maintenance services'[74]. The private sector in WASH can offer cost-effective and sound quality services and create awareness amongst the population. Some of the private sector services include i)construction of water and sanitation facilities, ii) supply of hardware and spare parts, and iii)operations and maintenance facilities. Active participation of the private sector is also critical for the sustainability of the WASH sector in Sierra Leone and is an avenue for youth employment. Development of associations and legal and regulatory frameworks are some potential indirect benefits from increased private sector participation. However, to ensure this, the sector needs an inflow of investments. Public-private partnerships are one such way of attracting the necessary capital.

03

THE LANDSCAPE OF IMPACT ENTERPRISES IN SIERRA LEONE

The chapter covers the Impact Enterprise landscape in Sierra Leone and analyses emerging business models in the country – categorized under access, ability, and network and knowledge levers based on their product/service offering. The section also covers detailed case studies of few impact enterprises and demand-side challenges of attracting impact capital. The insights and learnings presented in the section are based on a combination of secondary research and discussions with around 40 impact enterprises[75] from various regions (rural and urban) in Sierra Leone, across multiple sectors and sizes.

Figure 8: Summary of research findings for majority of the enterprises



Source: Intellecap Analysis, N=40

CHARACTERISTICS OF THE IMPACT ENTERPRISES THAT PARTICIPATED IN THE STUDY

Most of the impact enterprises are based in urban areas, with most of them working in the agriculture sector. Of the total enterprises, around 38% of the enterprises were based in Freetown (Urban). About 13% of enterprises have operations across multiple districts. Enterprise interviews were conducted from districts including Moyamba, Bo, Falaba, Makeni, Bonthe, Port Loko, Kenema, Kono, Kambia, and Bombali. Agriculture is one of the critical sectors of the Sierra Leone economy. Almost 43% of the enterprises interviewed are from the agriculture and fishery sector, 18% from livelihoods, around 15% from waste management and the rest from other sectors such as energy and financial services.

Figure 9: Enterprise Analysis: Average Years of Operations (no of years)

Source: Intellecap Analysis

Most enterprises (43%) have been operating for less than or precisely for five years. Although most of the enterprises from rural setup have been working for more than five years, their operations have remained mainly community-based thus had limited focus on financial sustainability, further limiting their growth in terms of scale. Fewer than five enterprises from the list that was operational for less than three years have successfully raised financing.

The business and operating models for enterprises present in the rural and urban regions differ significantly. While rural enterprises focus on subsistence and create some impact on local communities, urban enterprises have an exclusive focus on social and environmental impact. Enterprises from urban areas focus on being financially sustainable, thus operating through for-profit business models, unlike many rural businesses. The critical models adopted include;

- ***Community-Based Organizations:*** Enterprises operating in the rural setup often operate through collectivized models. The organizations part of the enterprise sample was from farmers and traders' group. The majority of such organizations interviewed focused on solving individual members livelihood challenges instead of high-level social or environmental challenges.

- ***Promoter Based Impact Enterprise:*** The study saw enterprises interviewed from the urban regions to operate through formal structures, usually with one promoter. Although many (especially small and micro enterprises) were unaware of the term 'impact investment' or 'impact enterprise', they had a clear social or environmental impact focus.

- ***Volunteer Based For-Profit Organization:*** In some cases, enterprises, both in rural and urban areas, were operating through the support of volunteers. While in some cases, enterprises had both full-time staff and volunteers, few others operated only through volunteers. Financial sustainability, coupled with limited availability of the skilled team, were cited as key reasons for such structures.

The participation of women in the social entrepreneurship space in the country is limited. About 30% of the sample enterprises are either owned or managed by women or have services primarily for women. Most of the women-owned businesses are focused on the agricultural, agro-processing, and fishery sectors and are not registered formally. Many of the enterprises from rural settings are community-based organizations.

Access to finance remains a critical challenge, with most of the enterprises unable to raise commercial capital. Almost 38% of the sample enterprises have raised funding primarily as grants or debt/equity. Some of the investors offering equity include FinnFund, InvestSalone, AgDevCo, and West Africa Venture Fund. Around 7% of the enterprise interviewed raised debt funding (in a few cases along with equity). Most of these enterprises also expressed the 'need for collateral' as an obstacle to secure loan from banks, the preferred source of capital. Enterprises operating in the rural region often find it difficult to seek support from aid agencies and organizations because of a lack of information. Few enterprises raised grant support from NGOs such as Oxfam, SCADEP, Plan International, and World Vision for activities such as farmer training, customer engagement, and awareness programs. Cordaid, CARE, and World Vision are other typical support agencies in the region.

> *"Some of them are unaware that they can raise money from outside (home)…they don't understand what type of funding is important and best suited for them. Most of them resort to debt/grant. Culturally, people keep their business to family."*
>
> *Portfolio Manager, Impact Fund*

Entrepreneurs, especially from the rural setting, had little or no knowledge of the term impact investment. While few respondents (entrepreneurs) considered only NGOs and support agencies as impact investors, others acknowledged not understanding the term. The study observed that many such enterprises relied either on their natural growth trajectory or sought support from traditional sources such as banks. Enterprises with informed promoters, usually an ex-pat or foreign national, were seen to be well aware of 'impact investment' concept. These enterprises were also able to raise adequate impact funding.

Revenue of the enterprises ranged from less than USD2,500 to over USD 14 million annually. From the conversation with small scale enterprises, especially from the rural region, the study observed that minimal investment was made into advertisement, scale-up strategy, and planning. Most such businesses are operating at a subsistence level. The community-based organizations sustain through the group's collective saving and proceed from the sale of the produce. A significant part of the revenue from the sale of produce is used for administrative purposes such as payment of salaries for the staff, followed by working capital. Such organizations often look up to non-government and government agencies for financial support. To maintain long-term relationships with the customers, few enterprises that offer daily-use services offer their customers subscription or membership options. For instance, Shae Recycling allows houses to pay lower prices for garbage and waste collection at the doorstep through a subscription-based model. In rural areas, community-based organizations often operate through a membership model. These organizations offer collectivisation benefits such as lower cost of inputs, low price of credit, etc. An individual must contribute a minimum amount to the collective fund to become a member of the group. An example of such a model is Sierra Leone Women's Farmers Forum from Port Loko district.

From the sample, private sector enterprises operating in the rural setup were still following traditional methods of customer engagement and distribution. These enterprises were directly selling to customers through retail or relationship-basis. Despite having been operational for years, many such enterprises have not adopted modern ways of distribution. The use of technology was limited in such cases, which led to substantial distribution delays due to the manual recording of data such as warehouse/stock management, product delivery and loading information update, and order procurement. Some enterprises from our sample using conventional methods are Sierra Leone Women's Farmers Forum and Soba wan pot and coal pot operating in Bo district.

Figure 10: Enterprise Analysis: Customer Engagement and Distribution Model

Source: Intellecap Analysis

The study observed that formal enterprises operating in relatively developed regions adopted more efficient ways of engaging with customers to reach broader markets. Some of the customer engagement models adopted by the enterprises included:

• ***Distributor network (exclusive and non-exclusive):*** Such enterprises sell their products/services through associated distributors in various cities and regions. For instance, Bennimix, RAMSYL Smart Farm, Lambano operate through a non-exclusive distributor network, while GoMarkits and Yembeads work with their exclusive distributor network.

• ***Agents and commissioners:*** Some enterprises engage with local individuals and leverage their discrete business network to sell products and services. For instance, Easy Solar sells its solar-powered products through local shops that act as agents to the enterprise. These individuals are incentivized through commission on each sale. Some individuals who work as agents with Easy Solar sell the product from their homes and rely solely on this trade for livelihood.

• ***Partnership with the support service provider:*** Due to restricted infrastructural developments, many enterprises resort to local partnerships with service groups in remote regions. Examples of such models are, miKashBoks which has partnered with telecom providers to offer their services and Kambia Farms that partner with farmer-based organizations to distribute its seeds at the regional level.

• ***Pre-signed contract:*** Few enterprises sign contracts with international/ national off-takers in advance. For instance, Balmed and Fresh Salone export their aggregated farm produce to foreign markets based on the pre-signed contracts. Such a model also allows enterprises better to plan their activities, such as farmer engagement schedules.

DEEP-DIVE ASSESSMENT OF SOCIAL ENTERPRISES BUSINESS MODELS

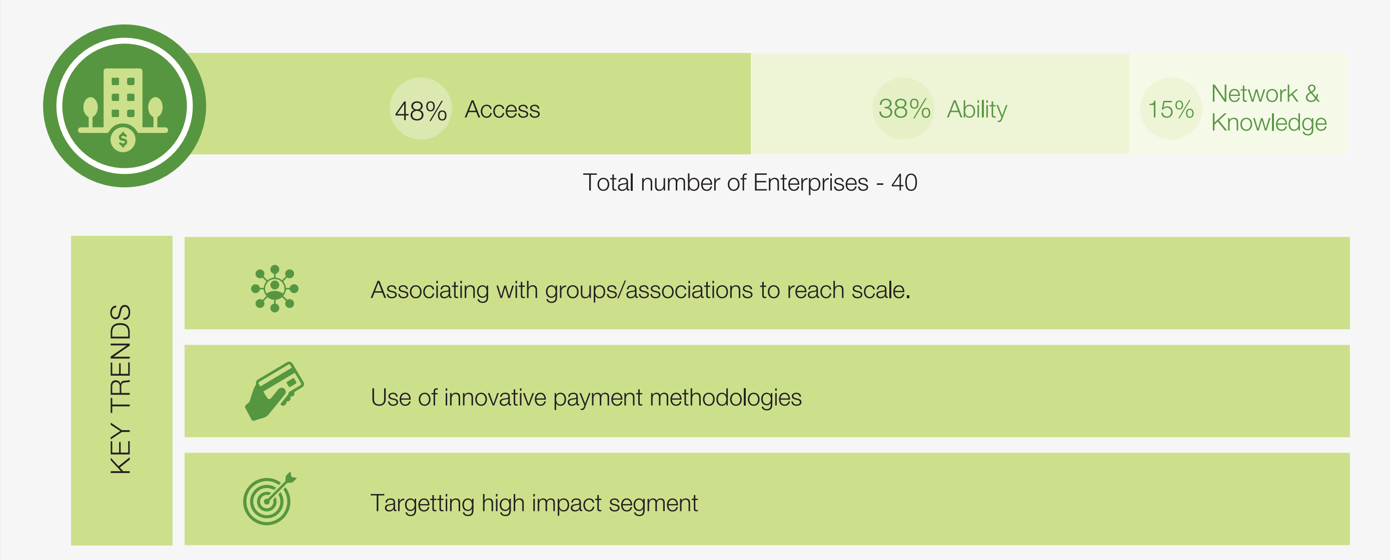
The enterprises interviewed as part of the study are classified and analyzed based on their approach to solving defined challenges: 1) enabling access, 2) improving ability, and/or 3) facilitating network and/or knowledge.

Figure 11: Levers of enterprise model in Sierra Leone

1. ACCESS ENTERPRISES

The most considerable proportions of sampled enterprises have developed innovative solutions to access essential products and services to the communities. Due to disrupted growth, the country's rural and underdeveloped regions have limited access to essentials such as energy and transportation services. Further, the population lacks access to financial services, affordable healthcare and quality education. Access enterprises aim to fill this gap through innovative solutions. Some of the access enterprises interviewed include Easy Solar, a pay-as-you-go (PAYGO) energy company offering access to energy; Light Salone, an energy company offering solar windmill solution for rural communities; Fresh Salone, an agri enterprise offering smallholder farmers access to the export market; and Lapo finance, an MFI offering micro and small credit to rural communities and businesses.

Figure 12: Key trends of Access Enterprises in Sierra Leone



ENABLING SMALLHOLDER FARMERS ACCESS TO MARKET AND CHEAPER AGRICULTURAL INPUTS

By 2050 Sierra Leone's population is expected to double and reach 12.4 million[76] resulting in an increased need for food security. Smallholder farmers that account for 60%[77] of the country's population can offer a solution to meet the expected demand by increasing agricultural production. Thus, increased farm income and infrastructure is critical for proportional economic development. However, despite this, the sector faces numerous challenges, such as low access to credit and limited assistance for purchasing agricultural inputs and marketing. According to a survey conducted by The United Nations Capital Development Fund (UNCDF), 60%[78] of smallholder farmers cited inadequate access to inputs and finance as critical hindrances to their productivity. Lack of market access and information, low mechanization, and labour shortages are a few other challenges that affect the agricultural sector's productivity in Sierra Leone.

Moreover, the inability to reach the market in time, coupled with the absence of proper storage facilities, leads to high post-harvest losses. Only about 5% of the farmers are estimated to have access to storage facilities[79]. While poor local market access is primarily due to the sub-optimal road and water infrastructure, limited access to the international market is due to the smallholder farmers' inability to meet the quality standards. Enterprises such as GoMarkits, Nianda Agriculture, Farm Investments and West Africa Rice Company (WARC) allow farmers easy access to markets through innovative models such as out-grower models and tech-based platforms. While some of these enterprises engage in the out-grower model directly connect farmers to the end consumers.

Fresh Salone, an enterprise established in 2013, supports farmers to export produce to European countries like Belgium. The enterprise has also adopted environmentally sustainable packaging solutions to minimize ecological harm. The enterprise provides smallholder farmers guidance to meet export quality requirement. It secured grant money from the Foreign, Commonwealth & Development Office (FCDO) and USAID for farmer training and buy processing equipment. Sierra Leone Women's Farmers Forum, operating through a traditional collective farming model, has reached international markets such as Mali and Guinea to sell its produce while assisting farmers on quality management. Kabi enterprise, headquartered in Freetown, is one of SAKATA's sole suppliers (a Japanese company with a significant share in the world's vegetable and ornamental seed and cutting market) seeds in Sierra Leone. The enterprise also provides durable and affordable drip irrigation kits to smallholder farmers in association with the manufacturers.

CASE STUDY 1: GOMARKIT

Description:

Established in the year 2017, GoMarkit is an agribusiness company in Sierra Leone, aiming to bring food consumers closer to the producers. It offers a mobile-based app that allows consumers to order fresh agricultural produce at affordable prices.

Operating Model:

The mobile-based services include both business-to-consumer (B2C) and business-to-business (B2B) supply platform. Through a dedicated digital retail platform (B2C service), customers get direct same-day doorstep delivery at affordable prices. The company also delivers daily groceries to its customers through this platform in association with retailers (partners). The associated retailers also sell the company's products at their retail outlets as part of the deal. As part of the B2B model, the company has its distribution network that includes thousands of small and medium-sized vendors in Freetown's urban markets. GoMarkits' central packhouse, warehouse, and temperature-controlled storage facilities allow it to store and deliver products at various locations across Freetown.

Financial Sustainability:

The enterprise in the post-revenue stage. GoMarkits has not raised formal funding except for a small grant of USD 5,000 as part of a challenge. Apart from this, the company is primarily bootstrapped with support from friends and family.

Chalenges:

Some of the company's challenges include i) Lack of funding support owing to limited funding opportunities for startups in the country, ii) Difficulty in availing loan from banks and other financial institutions. iii) Lack of effective entrepreneurial ecosystem such as incubators and accelerators that can guide and help businesses organize their strategic plan, iv) Lack of networking platforms that can bring together small businesses, support agencies, and investors. There is also a lack of cooperative spirit amongst smaller enterprises that consider similar other companies as competitions rather than as partners, and v) Lack of government support is another critical challenge. Although specific institutions and agencies support youth entrepreneurs and small businesses in the country, their adequacy and efficiency are often questionable.

Impact:

The company currently supports around 54 smallholder farmers, directly linking them to consumers. The GoMarkit mobile app has witnessed approximately 1,000+ downloads to date.

Road Ahead:

The company plans to expand its network to more than 3,000-4,000 vendors across provinces. It also aims to mobilise capital from investors in the future, provided they understand the market and the sector.

CASE STUDY 2: KABIA FARMS

Description:

Kabia Farms is an agricultural company established in the year 2017. The company is operational in 16 districts of the country and is the sole distributor of an international (Japan) seed company Sakata. Headquartered in Freetown, the enterprise aims to boost agricultural productivity by offering high-quality hybrid seeds to farmers.

Operating Model:

Apart from having its farm, the enterprise offers hybrid seeds, in association with Sakata seeds, and a solar-powered irrigation system associated with future pumps to smallholder farmers. Apart from this, it also provides training on practical and modern production techniques to farmers. To build awareness about Kabia Farms' products for two years, organized workshops, field demo trips, and established demo plots.

Financial Sustainability:

The company, funded by other parallel business streams, has not reached breakeven. It has also not been able to secure external funding so far.

Challenges:

The ongoing pandemic and resultant lockdowns have hampered farmers' movement and thus affected sales of seeds. The decline in sales has led to heavy losses to the company resulting in laying off redundant employees. Another critical challenge is to access funds; the enterprise has not been able to secure funding from banks as well; this is significantly affecting its business operations.

Impact:

By providing quality seeds and extension services to the farmers, the enterprise can improve the farmers' yields and profitability while also curtailing food security in the country. Through its training programs, the enterprise is also encouraging youth employment in the sector.

Road Ahead:

In the next 2-5 years, the enterprise aims to expand its farming operations massively and have already signed contracts with giant international firms.

ENABLING ACCESS TO NUTRITIOUS FOOD

Apart from working with smallholder farmers to address food security challenges, a few impact enterprises are directly targeting the end consumers. Sierra Leone lacks affordable and nutritious food for children. The Sierra Leone National Nutrition Survey estimated that in 2017 almost 31% of the children were stunted, translating to around 293,736 children[81]. Although the numbers have improved over the past ten years, stunting rates that have remained above 30%[82] indicate a persistent chronic malnutrition situation. The national prevalence of Global Acute Malnutrition is 5.1%[83]. The survey also estimated that younger children (age 6-29 months) were more malnourished than older children (age 30-59 months). Local impact enterprise, Bennimix, aims to offer a targeted solution to the defined problem. The enterprise provides food for infants from 6 to 24 months by developing and manufacturing products best suited to the local context. Although these products are in direct competition with some of the leading international brands such as nestle and cerelac, it differentiates itself by developing a customized product for Sierra Leone's population.

Smaller organizations operating in remote regions have come up with collectivization models to address food security challenges. For instance, Koromasilia Women's Agricultural Group, operating in Falaba District, is an all-women managed Farmer Based Organization (FBO) that is collectively growing nutritious crops such as cassava, potatoes, groundnuts and other vegetables. The produce is equally distributed for self-consumption amongst the group members while selling the remaining stock in the market at Dovecots, a famous Freetown marketplace. Returns from the sale are reinvested in the business, thus further ensuring food security and business sustainability.

CASE STUDY 3: BENNIMIX

Description:

Bennimix, established in the year 1989, is a baby food manufacturing enterprise in Sierra Leone. The enterprise produces porridge made of rice, sesame, pigeon pea, and sugar for children between the age of 6-24 months to reduce the cases of malnutrition in the country. The enterprise has its manufacturing facility in the Bo district of the country.

Operating Model:

Bennimix locally sources its raw material from associated farmers. To ensure the produce's quality, it also provides these farmers with tools, training, and other support services. The company earlier directly associated with individual farmers to source the produce, however after incurring huge losses from high investments with no returns from farmers, it has pivoted its model. It now has built partnerships with local NGO, Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance (ACDI-VOCA) to engage with farmers. The NGO helps in forming farmers' groups to manage the supply and expectations better. Bennimix is currently associated with 1,500 farmer families. The enterprise operates through a network of distributors that further sell the products to retailers across the country. Since one of the target customers of Bennimix products is the rural poor that are unable to provide nutritious food to their children, the company uses a differential price mechanism for different customer segments. The majority of the product sales are in Freetown (80%), and the rest in Bo, Makeni, Kenema (20%).

Financial Sustainability:

The enterprise received a grant from the European Union (EU) to support its' associated out-growers to shift from subsistence farming to private commercial agriculture. It has not materialised other investments either due to a high-interest rate or a mismatch in expectations. The enterprise is in the post-revenue stage.

Challenges:

One of the critical challenges is the lack of access to preferable funds such as debt. The high-interest rates make businesses such as Bennimix wary of securing funding support. There is a lack of investor's trust in local businesses to pay off their debts that hampers the private sector's growth prospects. The enterprise's other challenges include a lack of skilled labour and a cumbersome and challenging regulatory environment.

Impact:

Bennimix is currently working with 1,500 farmer families, offering them better prices for their produce. The enterprise has also been serving underprivileged kids through 'school feeding programs' with support from donor funding.

ENABLING ACCESS TO ELECTRICITY

Apart from food security challenges, Sierra Leone also struggles with access to necessary infrastructure such as electricity. The country mostly relies on non-renewable energy resources. The production and use of energy are concentrated in the household sub-sector, with almost 65%[84] of lighting generated by inefficient, battery-powered torches or lanterns. Fuelwood provides nearly 90%[85] of the domestic energy needs of heating and cooking. These methods of energy generation and use result in environmentally hazardous solid waste. The situation, though, has improved in the capital city (Freetown); the grid doesn't extend beyond that. Only about 13%[86] of the country's population have access to the national grid for electricity. A large proportion of the population spends a significant amount of their income on electricity, highlighting the need for an affordable and accessible energy supply. Easy solar (Also known under the name Azimuth), a Pay-as-you-go enterprise, offers affordable solar products through its agents and commissioners' network. The enterprise provides a range of solar products (solar lantern and other systems for domestic use) that the customer can buy in cash or via mobile money.

CASE STUDY 4: EASY SOLAR

Description:

Easy Solar, established in 2016, aims to ensure clean and affordable energy access to all in Sierra Leone. The company is operational in almost 16 districts in the country. The company has a partnership with Teleficient Communications, a VOIP communication company, for pay-as-you-go (PAYGO) financing and distribution model integration. Easy Solar aims to serve around 87% of the 7 million people that live without electricity in the country.

Operating Model:

The company offers off-grid solar powered energy products on a rent-to-own financing model and allows installment payments weekly, monthly, quarterly, or annually. The unique PAYGO model allows even the smallest consumer to afford the products, for instance, a solar lantern for USD1 a week. To neutralize the risk of payment defaults, the company uses a simple credit scoring mechanism. For this purpose, the company segments its market as rural, urban, and semi-urban based on income groups. Having known the income groups, the company's agents upsell larger systems and product bundles to good payers and vice versa. The products are distributed through agents and commissioners. While some of these distributors have their shops, some are independent distributors that sell easy solar products from their home as a second livelihood source. Owing to the vast distribution network, the company faces less competition from other companies that are still behind in developing such a network in rural areas. The enterprise sources its solar products from a range of World Bank certified, US-based manufacturers whose production lines are in China. This allows them to lower the cost significantly and yet earn a decent margin on the products. Its lowest product price is around USD 10, and the highest is around USD 790 (bundle of solar-powered products). Easy Solar measures impact through parameters including Social-no of households and individuals reached, Economic- no of individuals employed and jobs created, and Environmental- saving on carbon emission from unsustainable fuels for energy generation.

Financial Sustainability:

Since its' launch in 2016, the company's revenue has grown by almost 100%. In 2018, it raised around USD 2 million in funding from Acumen, Gaia impact fund, SIMA fund, MasterCard foundation, and Open Road Alliance, Cordaid, and African Business Fund. While most of the investments were in debt, part of acumen's investment was in equity format. In 2020, it raised USD 3 million in series A from Acumen and FMO and USD 2 million line of credit from Trine investment platform. The enterprise in the post-revenue stage.

Challenges:

The company's key challenge is to deal in cash which is amplified given the vast distribution network. In some cases, it becomes challenging to track the movement back to the company's account. The company has partnered with Orange money (part of Orange, a leading telecom network in Sierra Leone) to ensure money transfer through USSD. It is also in the process of partnering with Afri money (part of Africell, a telecom network in Sierra Leone) for the same purpose.

Impact:

Started as a pilot, Easy Solar, has now grown to have 400,000 beneficiaries. Since its inception, the enterprise has saved on 14,300 tons of Co2 emission. It also employs 500 people directly and indirectly, of which 40% are female.

Road Ahead:

The company going forward, aims to continue growing its distribution network in Sierra Leone. It also is planning to venture into other non-solar products using the company's brand name. The company is in the very early stages of expanding into Liberia, although the ongoing pandemic hinders the process. It also aims to expand its operations to Guinea by next year.

ENABLING ACCESS TO AFFORDABLE CREDIT

According to the Global Findex 2017, Sierra Leone has the lowest financial inclusion rates in West Africa and the continent. Of the total adult population, only about 19.8%[87] has access to formal financial services. The issue is graver in rural areas where there is a shortage of formal financial institutions. According to a study undertaken by Intellecap[88], limited bank branches and predominance of cash in rural areas lead to low banks' engagement in such regions. Additionally, owing to many informal enterprises that inherently lack formal credit access, there is a pressing need for affordable credit for such businesses in rural areas. In such cases, MFIs are the primary provider of brick and mortar-based financial services in these regions. MFIs such as LAPO and Munafa offer small and microloans to marginalized and underserved communities and groups. Munafa is a grant-funded not-for-profit MFI that adopted a group lending model to engage with the customers to help the poor and most vulnerable by giving them easy and affordable credit (non-secured loan).

It offers loans, savings opportunities, training, and social support adapted to its customers' needs. Through this comprehensive support, under-financed entrepreneurs are able to develop their businesses and improve livelihood. [Refer to Case study 5: Munafa] LAPO offers small and microloans to enterprises involved in small work like crafts, small-scale farming, primary food processing, etc. Apart from providing business loans, the Nigeria-based firm also offers farming, housing, and personal loans to a low-income population. The MFI also have customized products for women borrowers.

CASE STUDY 5: MUNAFA

Description:
Munafa is a for-profit microfinance institute with a social mission to improve the financial inclusion of the rural informal businesses that are otherwise un/underserved. The MFI was established in 2018 by funds from Entrepreneurs du Monde, a French non-government association, to support entrepreneurs in some of the most precarious slums of Freetown and remote rural areas.

Operating Model:
The MFI follows a unique group lending model that is adapted and adopted from ASA MFI. At first, it identifies a location that has a relatively lower social development index and has high poverty and economic distress. It then allows the community to form groups of 20-30 amongst themselves. The formation of groups allows personal 'affinity' (liability) amongst the members of the group. Munafa then conducts bi-weekly meetings with the groups anchored by its field officer, during which it equally divides the time between social training and financial transactions. It encourages the group to contribute a small amount, as low as Euro 60 cents (72 cents) per person, to the common fund, deposited with Munafa as saving. The objective behind this to promote the habit of saving amongst the rural communities. The MFI, after six weeks of regular meetings, then allows the individuals (with informal businesses) from the group to take collateral-free loans from Munafa. An informal micro-business can take a maximum loan of amount USD 1,000. However, after a couple of rounds of micro-SME loan, Munafa also helps the enterprise upgrade to SME status by assisting them in registration, incorporation, etc. Until now, it has reported a default rate of 2.4%, which has recently increased to 6% due to covid 19 distress. The current loan portfolio of Munafa is around USD 1,50,194.

Financial Sustainability:
Munafa is able to secure funding from the network of Entrepreneurs du Monde that has built an ecosystem of stakeholders working to support small businesses in low-income economies. The ecosystem is able to offer grants, loans, as well as equity capital. Some of the funders to Munafa include The Agence Française de Développement (AFD), FAET-Fondation d'Aide à l'Enfance et au Tiers-Monde, and Sofival. The MFI currently is in the post-revenue stage.

Challenges:
Although the MFI receives concessional capital, it is 'not always enough' to run business operations. Thus, it seeks funds from other external sources. One of the critical challenges in this regard is the losses due to forex fluctuations, due to which it's required to keep idle capital in its balance, thus losing out the return on investment. Additionally, owing to high NPA in the country, Munafa cannot make a 'decent' margin leading to a delay in its break-even. It expects to be sustainable in 4-7 years compared to 3 years for other MFIs with no impact focus.

Impact:
The MFI currently serves around 2,334 beneficiaries, 89% of whom are women. Although the MFI is registered as credit only MFI, it encourages its beneficiaries to save (the MFI does not invest/reinvest these saving and seek a return on the money saved with them). Munafa is able to offer low interest of around 2% per month owing to its impact objective.

While usage of formal financial services in Sierra Leone remains low, the use of mobile money has shown improvement in recent years. Mobile money accounts significantly increased from 4.5% in 2014 to 14%[89] in 2018. The usage of brick and mortar- based traditional financial institutions declined from 14.1% in 2014 to 12.4% in 2017[90]. iDT Labs, a social enterprise, built miKashBoks to digitize osusu(s)[91] 'financial transaction, a peer-to-peer lending mechanism in rural Africa, including Sierra Leone. The fintech solution formalizes the financial transactions of osusu. The solution also provided additional services to the beneficiaries, such as procurement of inputs at discounted rates, farm storage services, and products' sale at higher prices. These facilities allowed the groups to improve their operational efficiency and better manage their finances by enhancing their savings and, ultimately, their incomes.

CASE STUDY 6: iDT LABS - miKashBoks APPLICATION

Description:

miKashBoks is a mobile-based application developed by iDTlabs, a technology solutions company in Sierra Leone. The application aims to offer a solution to the most common challenge of access to formal finance for smallholder farmers. miKashBoks is a saving scheme that allows farmers to save using mobile money and buy agricultural inputs.

Operating Model:

miKashBoks operates primarily through osusus and a saving focused cooperatives across rural Africa. Depending on the community's size, around 50-2,000 people in one osusu group meet regularly. These groups make deposits with contribution as low as one dollar per person. At the end of the month, one person from the group can borrow the deposited money at a fixed interest rate. The interest amount is used for the community, such as renovating schools, buying equipment for the community, infrastructure development, etc. The miKashBoks application formalizes and centralizes these financial transactions using a mobile application, enabling them to take loans from banks, which is challenging due to lack of data. By digitizing the system, the enterprise could reduce the potential risks of handling a massive cash sum. miKashBoks has partnered with a telecom company to integrate the solution with theirs's.

Financial Sustainability:

miKashBoks charges a small commission on the amount deposited in the miKashBoks account as interest. It also earns a commission on transactions facilitated for the purchase of agricultural inputs. Due to the partnership, the farmers are able to receive better and lower prices of the inputs.

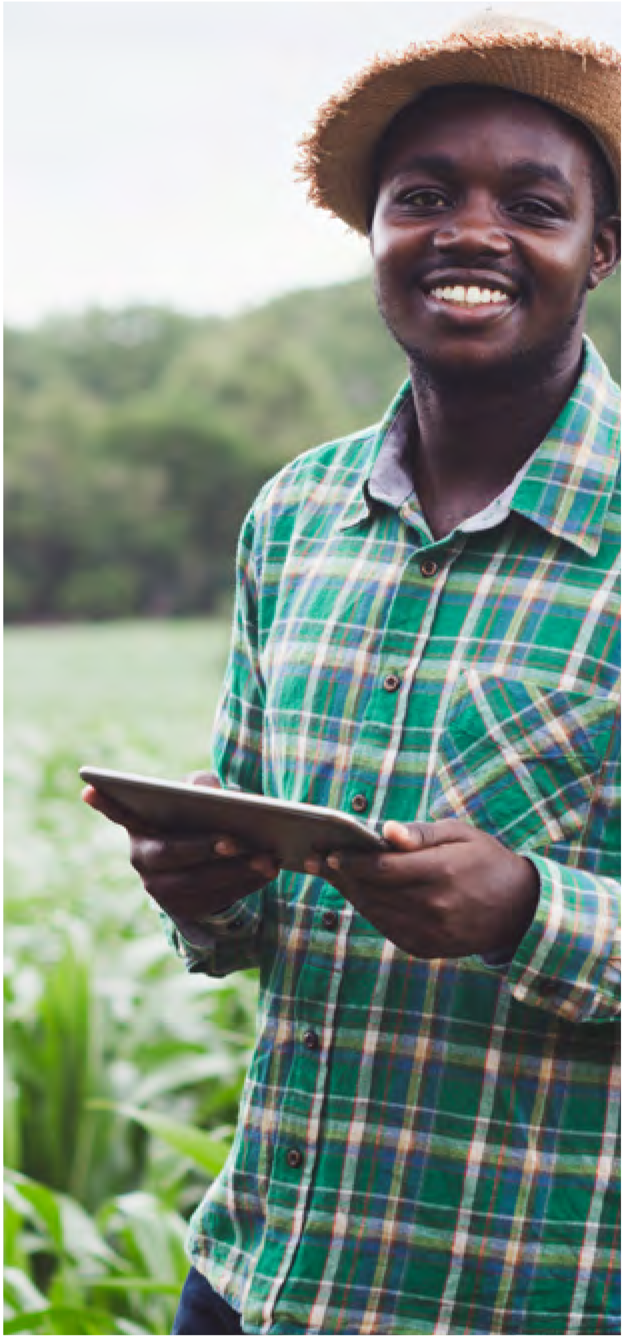
The application received USD 50K from a fintech challenge organised by UNDP in 2017-18 under Mobile Money for Poor (MM4P) programme. UNDP conducted the programme in partnership with SIDA through the Last Mile Trust Fund. miKashBooks used the fund to conduct research and field interviews with about 2,000 farmers to develop an initial understanding of the market potential.

Challenges:

When iDT Labs launched the application in Sierra Leone, Fintech was a new sector, and the country lacked specific laws on it, which caused hurdles for the application's authorization process. Most of the government agencies struggled to classify the application under a particular sector and law. In lieu of this, the company facilitated the development of a fintech association in the country that plays advocacy role for the fintech ecosystem in Sierra Leone.

***Impact**:*

It has reached almost 500 users in Sierra Leone and is piloting with 3,500 users in partnership with CARE International. Other markets with planned pilots include Bangladesh, Ghana, Nigeria, and Kenya.



2. ABILITY ENTERPRISES

Ability enterprises develop solutions and interventions that improve community incomes, purchasing power and enhance their employability and livelihoods. From the entire enterprises interviewed, 16 are enhancing the low-income population's ability by either offering them skill and training or offering a platform to earn a livelihood through group efforts. Some of the ability enterprises interviewed include Agro Fish Farm, a fishery enterprise, which provides training to small fish farmers to scale their business; Lambano, an agri enterprise, that is working with smallholder farmers to grow maize that is further processed into poultry feed enabling better prices to the producers; and Sierra Leone Women's Farmer Forum, a community-based organization allowing women farmers to earn better prices of their produce by collective power.

Figure 13: Key trends of Ability Enterprises in Sierra Leone

IMPROVING EMPLOYABILITY SKILLS OF LOW INCOME/UNDERSERVED COMMUNITIES

Youth unemployment was one of the prime reasons for 11 years-long civil war in Sierra Leone[92]. In 2019, almost 60% of Sierra Leone's population was in poverty, and around 70%[93] of the youth population was unemployed or underemployed. About 60%[94] of the population resides in the country's rural parts and makes a living out of small activities such as running small grocery shops, livestock rearing, or engaging in agricultural activities. Impact enterprises, such as Yembeads, works with financially backward and physically challenged persons to train and enable them to earn a decent livelihood while acquiring a lifelong skill. The United States Ambassador supported the enterprise's initial pilot program with 30 disabled individuals (who previously made income through begging). However, the pilot program had ceased midway due to the Covid-19 pandemic.

In Sierra Leone, about 70% of the women are employed in the agriculture sector and around 75% work as labour along the food value chain from production, processing, and marketing. The position of women in leadership roles and decision-making powers in farmer-based organizations (FBOs) and cooperatives, and other groups is improving. Women groups in rural Sierra Leone are offering livelihood to their members and contributing to community development. An example of such an organization is the Center for Community Empowerment and Transformation, a community-based organization from Moyamba. The women-dominated organization is involved in collective farming to earn a livelihood for their families and support the community. The group helps women from financially backward backgrounds by offering them a portion of their agricultural produce against a few field service hours. From the farm earnings, the group of women can educate their children and serve the community by offering products and services unavailable in the region.

In another example, WARC works with subsistence farmers. It offers them modern machinery and training in advanced farming techniques. WARC later buys back the final produce from producers. [Refer to Case Study 8: West Africa Rice Company (WARC)]

CASE STUDY 7: MIRO FORESTRY

Description:

Miro Forestry is a sustainable forestry and timber business that started with plantations in Ghana in 2010 and eventually expanded to Sierra Leone. The company has landholdings in Ghana and Sierra Leone, amounting to over 30,000 ha (gross). The current planted area is approximately around 12,000 hectares, of which 60% is in Ghana, and the rest is in Sierra Leone.

Operating Model:

Miro Forestry operates through land-use arrangement and shares profits with the local communities. By leasing the land from the communities and paying them a proportion of the income from harvesting, the enterprise offers employment to local community members improving their skills and ensuring sustainable livelihood. Approximately 1% of the company's annual budget is set aside for community projects which focus on education, access to water, and healthcare. In 2019, the company spent around USD 95,000 on community development. Through its commercial operations, the company also aims to protect and regenerate indigenous tree species and promote bio-diversity and environmentally sustainable land-use management.

Financial Sustainability:

According to the company's 2019 annual report, it has received a total investment of around USD 43.8 million in equity and USD 21 million in the form of debt. The total amount invested by private investors is USD 2 million, by family offices around USD 18 million and around USD 96 million by institutional investors. In 2018, the company raised a mezzanine investment from Finnfund of around USD 8 million, which is approximately 31% of the total financing. In 2015, CDC directly invested around USD 15 million into the company. Apart from Finnfund and CDC, there are about 25 other West African, European and Middle Eastern shareholders. In addition, Abrbaro fund, a Luxembourg-based private equity fund, in 2018, made its first investment in Sierra Leone by investing USD 20 million in Miro forestry. In 2019, the company signed an agreement with The Sustainable Trade Initiative (IDH) and FMO to launch a three-year smallholder project for match grant funding in both Ghana and Sierra Leone. The aim of the project to pilot demand-driven smallholder models with 40 hectares of plantations in each country. The enterprise is in the post-revenue stage.

Impact:

The company currently employs around 2,000 people across the group, of which 17% are women. Over 1,300,000 tonnes of atmospheric Co2 cumulatively sequestered until 2019. About 7,333 hectares of land is under active conservation management, which is an increase of 13% over the prior year (2018).

Road Ahead:

Concerning the 2020 outlook, though the management is aware of the restrictions posed by Covid 19, it remains optimistic and expects to increase its revenue to USD 1 million. The company recently closed new financing of USD 48 million to fund the year's group activities.

CASE STUDY 8: WEST AFRICA RICE COMPANY (WARC)

Description:

West Africa Rice Company (WARC) Group, established in the year 2011, is involved in food production, nutrition improvement and advisory services. Although registered in the USA, the company is operational in Sierra Leone and Ghana and has around three farms in these countries, averaging about 5,000 acres. After going through a rough phase during the Ebola crisis, the company diversified its business to mitigate such risks in the future and started advisory and consulting services to ensure stable revenue through an unrelated stream.

"In this fragile context- every 6-10 years we are going to have a major crisis… and we need to be as strong as possible."- Emiliano Mroue, Co-founder, WARC

Operating Model:

WARC offers smallholder farmers regenerative mechanization services and farming inputs on loan in the two countries. The company aims to increase farmers' income by 5-10 times and promote sustainable farming practices. It sets up large scale commercial training farms that can employ and train rural unskilled farmers in cohorts of 60-120, paying them a stable salary. The enterprise trains these farmers to become farm managers, machine operators and mechanics, warehouse managers, and financial managers. Upon graduation, the farmers deliver tested technology and service package (inputs, machine services, knowledge), through the Service Delivery Unit (SDU), to up to 3,000 smallholder farmers per cohort. It also buys the final produce from the farmers and sells it in the market. The profits against the sales are shared with smallholder farmers, thus increasing their incomes. The company aims to transition smallholder farmers from subsistence to commercial farming by improving their farm productivity and returns.

Financial Sustainability:

The company is in the post-revenue stage and has received TA support from Cordaid (2016). It also raised an undisclosed amount from Acumen and Cenirth in 2019. Apart from these, the company has also collaborated with USAID and GIZ at different times.

Challenges:

Similar to many enterprises, access to capital is one of the critical challenges for WARC. As stated by Emiliano, this is because many investors are not comfortable investing in Sierra Leone. WARC was able to secure funding since it was profitable, unlike many other private sector players, especially the smaller ones. Another key challenge was to manage the legalities; the company almost took six months to handle legal aspects while receiving investment from Acumen.

Impact:

It has about 600 smallholder farmers on its 'training/nucleus farms' and have served around 10,000 smallholder farmers through extension services in rice, palm oil, and maize.

CASE STUDY 9: WOMEN TARGET FARMERS ASSOCIATION

Description:
Women Target Farmers Association is a women's farmer association that started a loan and saving scheme. The association, registered with the Ministry of Agriculture to operate as a farmer group, operates in the Kambia district.

Operating Model:
The cooperative operates in two agricultural seasons. The group is involved in the farming of rice, vegetables and palm oil and collectively sells the produce in the market. The sale proceeds are reinvested in the business in terms of the purchase of seeds or other inputs. The group sells the produce in the local market. Most of the customers are agri-processors that purchase the produce in bulk.

Financial Sustainability:
The group relies on its members' weekly contributions against which each member receives shares that give them equity in the cooperative. The collective deposit allows the group to offer loans to its members when necessary at a minimal interest rate. It also provides seeds and other inputs as a loan that the farmers can repay after harvest. The groups have raised a total of around USD 20,000 fund since 2015 from member contributions. Although the enterprise has written proposals seeking support from SCADEP, Ministry of Agriculture, it has been unable to materialize. It has also been unable to avail loan from microfinance institute/community bank.

Challenges:
There are minimal potential sale markets in the region of the enterprise's operation. Due to this, it is required to transport the produce to nearby markets. Additionally, owing to the ongoing pandemic, the group has been unable to meet and mobilize financial resources, limiting its support to its members. It has also been difficult to transport the produce to the market.

Impact:
The enterprise has supported many member families and offered loan for education, medical emergencies, and to meet the needs after the pandemic broke out.

Road Ahead:
The enterprise aims to have its own processing facility in the future post-Covid. It also plans to expand its operations to other chiefdoms.

OFFERING BUSINESS SKILLS AND ENCOURAGING LOCAL TALENT

Given the country's entrepreneurial landscape's nascence, there is a lack of adequate business support services. Services such as IT support, HR management, talent acquisition, data analysis and other such services are missing. While a few donors and foundations led incubator and accelerator programs support newer businesses with developing business concepts, business and financial plans, and other relevant strategy documents, these are fewer than the demand. The private sector is also aiming to fill this gap through targeted services. For instance, Born To Do Business is an enterprise that supports young entrepreneurs to develop business plans and business development strategy against a nominal fee. They also provide financial management training to entrepreneurs in association with industry leaders and expert. Youth (students) and women are a prime focus of the company. In another example, a community-based organization called Diaspora Focus supports Sierra Leoneans who have returned to the country and are looking to make a livelihood. The organization trains young graduates to write articles, blogs, and stories to be published in their bi-monthly magazine or/and daily newspaper. The organization also organizes the National Development Awards to promote and encourage young businesses and individuals.

CASE STUDY 10: BALMED

Description:

Balmed began its operations in 2005 from Konno district, also called the district of Cocoa Growers. Apart from trading in cocoa, it has also started a cashew plantation and is now expecting returns. Balmed exports the cocoa to Holland and Vietnam and exports cashews to India and Vietnam.

Operating Model:

In 2012, Balmed designed a unique 'block farming' concept. Under the idea, the company leases land from landowners and communities and allows youth to act as micro-entrepreneurs to engage in farming business. The land-use model is a partnership model between the land user, landowners and Balmed. The company invests in developing the farms for productive use against a purchase guarantee during the lease agreement period. The enterprise enters into written agreements between a) the community and the landowners; b) the youths interested in farming business and the company; and 3) the landowners. The land's (plantations) legal right is held by the company for 20 years unless otherwise agreed with the community. The company provides farmers with inputs (tools, poly bags, seeds, etc.) and manages the 'farm management groups'. It offers these groups training on transparent record-keeping and shares market information.

The enterprise helps farmers follow the organic production process as per international certification standards, including UTZ, organic, Rainforest Alliance, and Fair Trade. The final produce is sold under the brand BALMED BLOCKFARMING© SYSTEM. The certified branded produce is able to attract premium prices of above USD 200/ton. The earnings from cocoa sales are shared 1/3rd each by landowners/community, youths and the company, respectively - after accounting for costs.

Financial Sustainability:

The enterprise won a grant of around USD800,000 as part of the Africa Enterprise Challenge. It was also supposed to be funded by Deutsche Bank a month before Ebola hit the country. Unfortunately, the enterprise was unable to secure funding from both the sources and managed to bootstrap. However, it received USD 250,000 in 2013 from Africa Agriculture Trade and Investment Fund (AATF) as part of the USD 1million trade finance agreement. The status of the remaining amount is unknown.

Challenges:

One of the critical challenges faced by the enterprise is of lack of skilled labour. To address this, issue the enterprise conducts training sessions for its potential employees and the associated farmers in partnership with local NGOs.

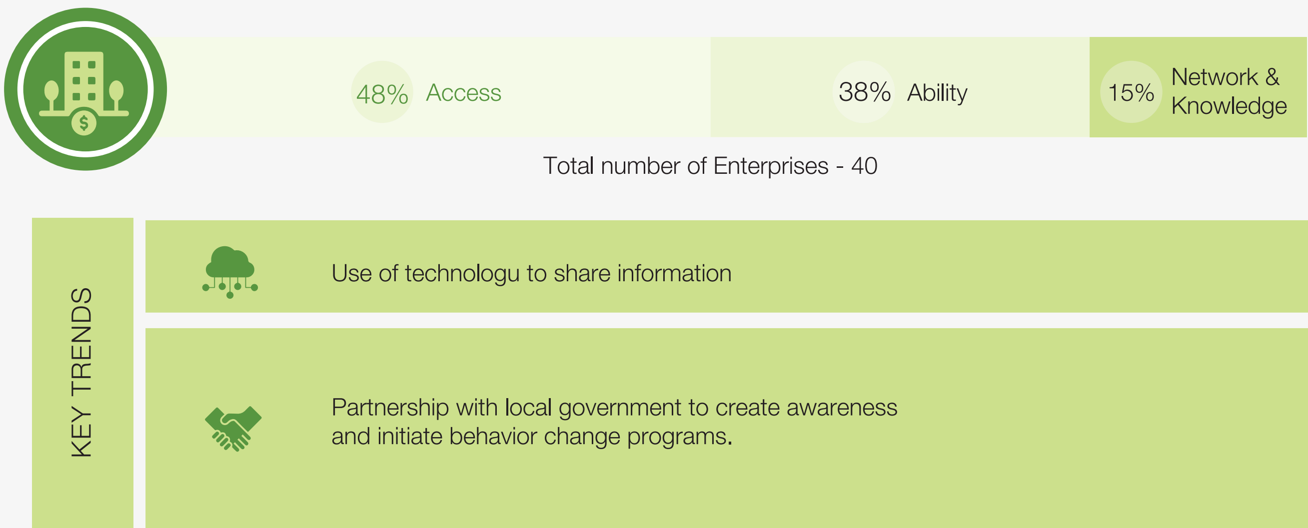
Impact:

The enterprise is currently working with around 5,000-6,000 farmers.

3. NETWORK AND KNOWLEDGE ENTERPRISES

Network and knowledge enterprises build awareness and share information to initiate behaviour change and allow communities to connect to unreachable markets. Some of the access and ability enterprises also offer network and knowledge services, i.e., creating awareness to inculcate behaviours change. Enterprises focused on the knowledge segment are primarily supported by grant or donations. From the total number of enterprises interviewed, seven offer network and knowledge services. Some of the network and knowledge enterprises interviewed part of the study include Nianda Agriculture, an agri enterprise, offering training and creating awareness amongst farmers to meet export demand and incorporate traceability solutions in their value chain; Leone Plastics, a waste management enterprise, raises public awareness through programs about domestic waste disposal through mobile waste collectors and; Balmed, an agri enterprise, through its block farming concept connects agricultural communities access to the market and shares market information with farmers to allow them to make informed decisions.

Figure 14: Key trends of Network and Knowledge enterprises in Sierra Leone



LEVERAGING MODERN TECHNOLOGY TO SHARE INFORMATION

The country still depends on traditional and obsolete ways of sharing market information, thus hampering the growth of many sectors and economic operations of smaller enterprises. The inefficient use of technologies in the market and lack of global and local connectivity with fibre-optics (internet) limit businesses' reach. Adequate and improved technology and internet services could allow international partnerships and outsourcing of work, especially during crises such as the ongoing global pandemic. It can also help resolve one of the enterprises' critical concerns - the lack of an adequate skilled workforce.

Few enterprises are challenging the market by offering technology-based solutions, thereby creating awareness among the citizens about the importance of technology. Such solutions have gained more importance during the ongoing pandemic. One such enterprise is GoMarkit (discussed in case study 1), an enterprise that acts as a link between farmers and consumers by providing the former with access to assured market and to latter assured quality supply. The enterprise leverages technology to share market information both with the producer and the buyer. It can also aggregate demand from the end consumers using its mobile application and aggregates the total supply through a farmer application through technology. The associated farmers are able to notify about the harvest that helps the company plan in advance its inventory storage and transportation needs.

BUILDING AWARENESS ABOUT RESPONSIBLE WASTE MANAGEMENT AND INCULCATING BEHAVIOUR CHANGE

Apart from the much-covered social problems in Sierra Leone, the country also faces environmental challenges such as deforestation, soil degradation, water and air pollution. Some of these problems also slow down the economic development of the country. The population concentration in certain cities like Freetown has increased the generation of waste more than the city can handle. According to a study conducted in Freetown, due to institutional, regulatory, financial and technical shortcomings, the district's waste management sector was weak and ineffective, resulting in environmental and health hazards. Few of the international agencies have encouraged skilling and entrepreneurship of the youth in waste management. For instance, in 2019, the International Organization of Migration (IMO) partnered with Freetown City Council to offer entrepreneurship training in sustainable waste treatment for youths.

The private sector in Sierra Leone provides innovative models to address sector challenges while engaging and creating awareness amongst the population. An example is Premier Enviro-Tech, a Freetown based impact enterprise that works to transform, recover and recycle plastic waste materials from the dumpsite, Kingtom (a large site in the west of Freetown). The enterprise converts plastic waste into affordable construction material, intending to enable marginalised communities' affordable housing options. By employing informal waste collectors, the enterprise can also offer stabilized income-generating opportunities to the group. As part of their business, the enterprise conducts awareness programs and demo events to sensitize communities about the need for responsible disposable and waste management. LeonePlastics has raised public awareness through programs about domestic waste disposal only through mobile waste collectors. The enterprise also offers employment to other unemployed people and trains them to collect waste safely. It is also working with the Ministry of Health and Sanitation to support their efforts to increase public awareness and provide better sanitation workers' provisions to improve their livelihood.

CASE STUDY 11: LEONE PLASTICS (LE PLASTICS)

Description:

Le Plastics is a waste management company headquartered in Freetown, Sierra Leone. The company is developed with the objective to address three critical developmental challenges: the shortage of roads, poor sanitation and unemployment. Most of Freetown's waste is dumped in Kissy Bomeh, one of the largest dumping sites. This has caused multiple problems for the city municipality and locals. Le Plastics converts plastics wastes into reusables in baled, flaked and pelletized forms.

Operating Model:

The enterprise collects wastes from individuals and communities and recycles them to sell again in the market. It has also managed the kissy bomeh dumping site and has solved dumping congestions, foul odour, and bacteria formation. The enterprise also sells segregated reusable waste such as plastic and rubber to recycling companies in the region. In partnership with the Ministry of Health and sanitation, the company has also raised public awareness about waste's responsible disposal.

Financial Sustainability:

The enterprise earns revenue from waste collection, dumping/segregation, and the sale of manure. In rare cases, it also makes revenue by selling plastic to factories and large recyclers. The enterprise has so far not been able to raise external funding.

Challenges:

One of the critical challenges faced by the company is to raise awareness and inculcate behaviour change. It also describes 'low respect' as a crucial issue for the enterprises in the waste management business.

Road Ahead:

In the future, the company aims to expand the areas of waste collection and raise funds to purchase equipment and waste collection transport vehicles. It also aims to invest in protective gears, masks, boots, and other waste treatment equipment.

Sierra Leone's impact private sector landscape is still developing; thus, enterprises face a multitude of challenges for their growth and scale as described below:

- ***Lack of skilled labour:*** The absence of skilled labour is one of the critical challenges faced by enterprises in Sierra Leone. This is also one of the main obstacles in scaling up businesses since the resources are limited in most circumstances. While some enterprises like Balmed have started training their employees to upskill them to better the business, not many enterprises have the time and resources to do so.

- ***Infrastructural challenges:*** Sierra Leone is still a few years behind in necessary infrastructures such as electricity and the internet. Many businesses have mentioned this as a set-back for their operations, which hampers business and increases operational costs. Multiple entrepreneurs have cited everyday business needs, such as packaging and branding, as a challenge. These enterprises have highlighted importing (packaging) material from neighbouring countries such as Ghana and Guinea Bissau. Enterprises such as Estu enterprise, Lambano, Light Salone, Agro Fish Farm, and others have highlighted this to be a common challenge.

> *"There are a very few investors. Banks are not very friendly to small business. They give priority to foreign business"*
>
> *Founder, Social Enterprise*

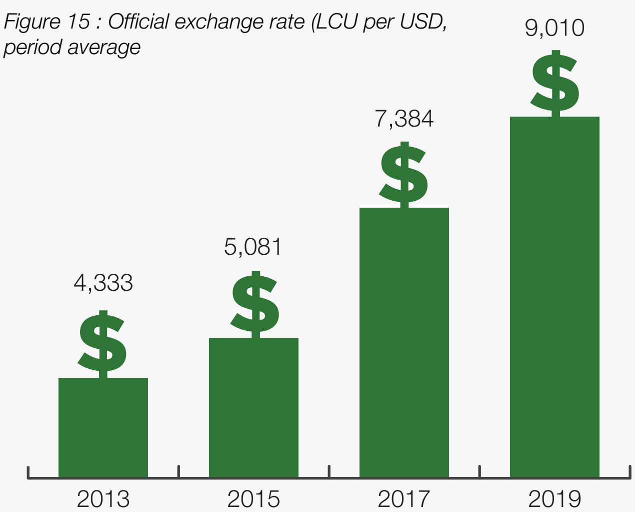
- ***Absence of business enabling environment:*** Enterprises cite challenges in finding the right set of technical and business support such as accounting, legal advice, and business consultants as critical challenges. Many enterprises have highlighted a lack of financial know-how or bookkeeping as one of the major setbacks. Additionally, with the limited availability of skilled human resources, these services' prices are incredibly high, making it unsustainable for many enterprises, especially micro and small. The limited support ecosystem for the entrepreneurs aggravates the challenge.

- ***Inadequate access to easy and affordable finance:*** Most Sierra Leone enterprises, both from rural and urban regions, have echoed finance access as one of the critical challenges. High-interest rates (28-30%) and mandatory collateral requirement by banks restrict many small players from approaching formal financial institutions. While there has been a presence of not-for-profit MFIs such as Lapo, Munafa, and BRAC[95], their reach seems limited. Thus, many enterprises rely heavily on grant or own capital (or borrowing from friends and family) for their initial capital support.

- ***Expectations of the investors:*** Investors to fragile states like Sierra Leone need to modify their investment practices and adapt to local business and investment climate. According to the enterprises interviewed, most investors are either unwilling or unable to change their investment criteria. Few enterprises highlighted that private equity investors were willing to invest only a small amount of money against a large equity share in the company. Some global investors prefer enterprises to have Special Purpose Vehicles (SPV), preferably outside Sierra Leone. However, some of the enterprises have displayed discomfort with this structure of investment due to operational reasons. According to many enterprises, there is a lack of patient capital in the country for the private sector. Most of the investors expect returns sooner than possible and have strict terms of the contract. The misaligned expectations of especially the global investors are due to limited understanding of the local context and application of matrix otherwise used for a non-fragile state. Many investors disregard potentially profitable deals due to lack of flexibility, depriving entrepreneurs of much-needed capital.

- ***Challenges due to currency fluctuations:*** Due to high currency fluctuations, many investors invest in either USD or other foreign currency. Consequentially, enterprises face enormous losses as they are expected to repay in foreign currency, which, if appreciated against the Leone, causes considerable losses to the enterprises. To lower the risk from currency fluctuations, investors and businesses follow strategies such as registering the companies in a stable economy like that of the US or UK and developing an SPV/foreign subsidiary for commercial transactions. In some cases, investors (such as Cordaid and FMO) are able to invest in local currency.

Figure 15 : Official exchange rate (LCU per USD, period average



Source: World Bank

• ***Limited support from the government:*** While there are relevant policies and regulations in place, the critical issue is implementation. Few enterprises also mentioned widespread corruption and red-tapism amongst government officials as obstacles to business growth. Enterprises operating in the agriculture space highlighted that though the government want to promote the sector, they do not have effective implementation plans to support it. An enterprise into the poultry business highlighted its struggles in managing the government's loan in 2017. The company has not received the entire amount from the government until the date of the interview. Enterprises from the rural setup have either received no support or have received partial support from government agencies. In the latter case, government agencies offer training and advisory to the farmer groups to cultivate a particular crop to buy back the produce. However, many community organisations denied benefitting from such government interventions.

Further, the government, driven by the agenda to generate tax returns, encourage enterprises to formalise their businesses. However, enterprises lack incentives to convert from an informal to a formal business structure as one of the key impediments. Additionally, the high costs of formalising-payment of taxes, obtaining licenses, and other costs prevent many enterprises from formally registering their businesses.

> *"There is no opportunity for small enterprises to access loans from banks. People who invest in small enterprises usually invest in those businesses that are doing well. The government agency SLIEPA is supposed to attract investors and advocate for enterprises but they are corrupt."*
>
> *Founder, Social Enterprise*

Challenges due to ongoing global pandemic: Some community-based organisations and small and medium enterprises that depend on NGOs face severe difficulties due to discontinuation of support from such organisations due to the ongoing global pandemic. For instance, a farm that offered training to farmers with the help of an NGO had to halt its services during the ongoing pandemic. Another enterprise that employed differently-abled staff stated that it had significant losses and had to completely cease its operations due to curtailed support from its partner organisations (US ambassador). The partner earlier offered financial and technical assistance for enterprises' pilot phase. Cessation of operations has affected the enterprises' growth and its direct beneficiaries, for whom this was the sole livelihood option. The covid crisis negatively hit the revenues and the financials of many enterprises. A motel from the Makeni district of Sierra Leone faces challenges to pay salaries of its staff with slack in business operations due to fewer tourists and guests. The tourism industry, which was on the rise pre-covid era, has been severely hit. An enterprise that has a production line of solar products in China is severely affected. Its rural distribution system is also negatively impacted with no or minimal local demand coupled with travel restrictions. The revenue of the enterprise has shrunk drastically. Covid restrictions have raised challenges to transport agricultural produce to market, which is critically affecting the business. Due to disruptions in the primary business line, many enterprises have also started offering services in lieu of Covid support either independently or in association with the government. Services such as sensitising communities about Covid related do's and don'ts and offering covid relevant products such as protection kits, masks, and sanitisers are examples.

04

THE LANDSCAPE OF IMPACT INVESTORS IN SIERRA LEONE

The chapter covers the supply of impact investment in Sierra Leone, focusing on the impact capital providers present in the country and their investment strategies. The section also covers various challenges faced by investors in the country. The insights and learning in the sections are also based on a combination of secondary research and discussions with 17 investors and ecosystem support organisations (ESOs) present in Sierra Leone.

CURRENT IMPACT INVESTMENT LANDSCAPE IN SIERRA LEONE

There is a significant mismatch between demand and supply of impact capital in Sierra Leone. Like in many other developing countries, the demand for financing in the country far outweighs the supply. The financing gap is especially wide for SMEs who have limited sources of financing. Commercial investors in the country prefer to deploy capital in more established businesses, not necessarily in the impact sector. Currently, the primary commercial capital source for enterprises in the country is commercial banks. However, most banks do not have an impact focus.

Further, there is a notable difference between the private sector's investments in rural and urban areas. Given that most investors are based out of Freetown, the flow of investments to other regions was relatively limited. In addition, there is a high dominance of debt preference over equity in the region due to limited awareness about the latter, yet equity and hybrid structures are crucial to build and scale businesses. Development sectors such as health, education, and agriculture also mostly receive funding in grants/development aid that cannot drive scale and build the growing private sector.

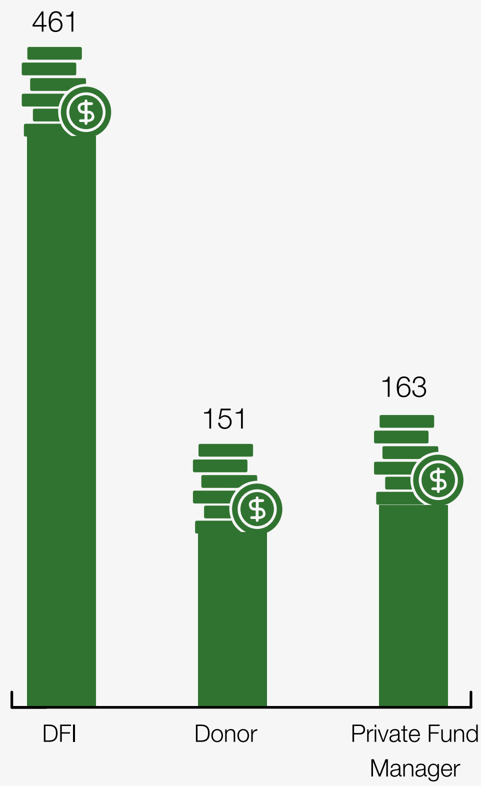
The mismatch between supply and demand can primarily be attributed to challenges faced by the investors, the private sector, and the enabling ecosystem. The subsequent chapters further discuss the challenges in detail.

Although still nascent, the country's impact investment activities are primarily driven by Development Finance Institutions (DFIs). Key investors, including World Bank, AfDB, FMO, and IFC, among others, have played a significant role in catalysing impact capital in the country and mobilised close to *USD 775 million*[96] between 2005 and 2019. The majority of these investments was in the form of a grant. The country received only slight traction from impact investors that directly invest in businesses or funds supporting marginalised communities or high impact sectors due to increased risk.

Impact Investment definition in Sierra Leone

Based on the discussions with the stakeholders from Sierra Leone, 'Impact Investment' is defined as investment that aims to create sustainable social and/or environmental impacts for investee enterprises and communities as well as adequate financial returns to investors. A key feature for the impact investment is creation of inclusive small and medium businesses that target high impact sectors or bottom of the pyramid (BoP) consumer markets. The intentional focus on social impact and financial return is what distinguishes impact capital to traditional capital

Figure 16: Impact Investments in Sierra Leone (2005-2019) by Investor Type (USD million)



Source: Intellecap Analysis

OVERVIEW OF KEY IMPACT INVESTORS IN SIERRA LEONE AND THEIR INVESTMENT/ FUNDING STRATEGIES

Impact investors operating in the country have adopted five key funding strategies, as shown in the image below.

Figure 17: Overview of funding strategies adopted by investors in the country

Design Stage Grant

Design stage grants are provided prior to the financial close of a transaction and are specifically aimed at providing funding and early stage support to a team that is designing and structuring the transaction.

Investors in Sierra Leone leveraging this instrument: Incubators, accelerators, foundations and faith-based organizations.

Technical Assistance Funds

TA funds are non-financial investment provided by local or internationa specialist. The ways it can be delivered are sharing information and expertise, instruction, skills training, transmission of working knowledge, and consulting services and may also involve the transfer of technical data.

Investors in Sierra Leone lnveraging this instrument: Impact investors, donors and ESOs

Debt/equity investments

Investments made in companies, organizations, and funds that generate measurable social or environmental return along with financial return**.**

Investor in Sierra Leone leveraging this instrument: Impact Investors, DFIs and Donors

Political Risk Insurance/Guarantee

PRI provides coverage for the various kinds of political risks, like nationalisation and expropriation of assets, restriction on remittances, political violence and war damages, currency inconvertibility, and breach of contract. PRI is usually offered to equity investors and banks making loans to commercial entities in foreign markets.

Investors in Sierra Leone leveraging the instrument: DFIs

Concessional Capital

Concessional loans are extended on substantially more generous terms than market loans. The concessionality is achieved either through interest rates below those available on the market or by grace periods or a combination of these. Concessional loans typically have long grace periods.

Investors in Sierra Leone leveraging the instrument: Impact Investors, DFIs, and Donors

Figure 18: Analysis framework for impact investments in Sierra Leone

	Design Stage Grants	Technical Assistance Funds	Debt/Equity Investments	Guarantee/Risk Insurance	Concessional Capital
Angel Investors					
Incubator & Accelerators	• Sensi Tech Hub • Innovation Axis Innovation SL • Faster Capital • Afflord SL • SL Agcelerator				
Foundations & NGOS	• Tony Elumelu • Foundation Young Africa • Leaders • Initiative (YALI) • Network	• Aurora Foundation			
Faith Based Organizations		• E4Impact			
DFIs		• SSL Labs,IFC • Gas to Power, IFC	• IFC, Celtel mobile network • IFC Vitafoam Nigeraia • Western Area Power Generation Project, IFC, FMO,CDC, • Sierra Leone Ebola Banking facility, CDC & SC • Cetel Expansion, IFC+ others Vitafoam Nigeria Plc • Sierra Leone Ebola Banking • facility, CDC Solon Capital, CDC Sierra Tropical (Subsidiary of • Dole pineapples: subsidiary of ITOCHU, Japan) IFC Sierra Rutile, IFC • AFDB, Union Trust Bank and • Agribusiness and Rice Value Chain Support Project (SLARIS) • Norfund. FEI On-Grid	• Groupe Europe Holding Sky Handling Partner • Sonatel (Orange) • Sierra Tropical (Subsidiary of Dole pineapples: subsidiary of ITOCHU, Japan) MIGA	• MASSIF Fund, FMO
Impact Fund		• Acumen • Gaia Impact Fund • FinnFund (Goldtree and MiroForestry) • SIMA Fund • AgDevCo • Truestone Investment • Synergy Capital • Gold Tree, African Agriculture Fund, Phatisa • FCDO Impact Fund • West Africa Venture Fund, IFC and Cordaid • Sierra Investment Fund • Soros Economic Development Fund • Sierra Leone Ebola Banking facility, Standard Charted • Mastercard Foundation • Manocap			
Donor		• Regrow, USAID • Invest Salone, FCDO • Agro-Processing - Competitiveness Project, IDA • Sierra Leone Agribusiness Development Fund (SLADF), World Bank, FCDO, and IDA • GIZ Sierra Leone	• Western Area Power Generation Project, World Bank, IDA • Sierra Leone Agribusiness • Western Area Power Generation Project, World Bank, IDA • Sierra Leone Agribusiness • Western Area Power Generation Project, World Bank, IDA • Sierra Leone Agribusiness Development Fund (SLADF). World Bank, FCDO, and IDA • Invest Salone • The Microfinance investment and Technical Assistance Facility, KfW, UNCDF, UNDP, & Cordaid • Bio United Ltd and Balmed, AECF		• Sierra Leone Agribusiness Development Fund (SLADF), World Bank, FCDO, and IDA • Agro-Processing Competitiveness Project, IDA

Investor-wise Investment Instrument Preference Scale High ● ● ● ● Low

ROLE OF DFIS IN THE IMPACT INVESTMENT SECTOR IN SIERRA LEONE

DFIs in Sierra Leone have approximately invested ***USD 461 million***[97] between 2005 and 2019 in around 25[98] deals. The study mapped 9 DFIs, including IFC, Proparco, FMO, CDC, MIGA, AfDB, KfW, Norfund, and Finnfund. Like in many other fragile economies, DFIs in Sierra Leone catalyses investment post-conflict with the aim to accelerate economic recovery

Table 2: Summary of activities of major DFIs in Sierra Leone between 2005 and 2019

DFI	Approx. Total Capital Deployed (USD million)	Sector Priorities	Key Investment	Key Investment Strategies
IFC	**112**	*Agri and Agro-Processing, Energy, ICT, Mining*	*Western Africa Power Project (CECA)[99] , Celtel, Sierra Tropical, and Sierra Rutile*	*Debt, Equity, Blended Finance, and TA*
AfDB	**16**	*Agri and Agro-Processing, Financial Services, Multi-Sector*	*Youth Entrepreneurship Program, Enable Youth - Sierra Leone, Union Trust Bank (UTB), Agri-business and Rice Value Chain Support Project (SLARiS)*	*Debt and Grant,*
CDC	**45**	*Financial Services and Multi-sector*	*Sierra Leone Ebola Banking facility and Solon Capital*	*Equity and Guarantee*
FinnFund	**19**	*Agri & Agro-Processing*	*Miro Forestry and Gold Tree*	*Mezzanine Debt and Equity*
FMO	**18**	*Energy and Financial Services*	*Western Africa Power Project (CECA), Riverblade Holding BV, MASSIF Fund, and Easy Solar*	*Loan, Grant, and Equity*
MIGA	**238**	*Energy, Infrastructure, ICT, Agri and Agro-Processing*	*Groupe Europe Holding (Sky Handling Partner SL), Sierra Tropical (Subsidiary of Dole pineapples: a subsidiary of ITOCHU, Japan); PPP with Sierra Govt, Sonatel (Orange Limited), and Western Africa Power Project (CECA)*	*Guarantee*
KfW	**0.49**	*Agri and Agro Processing and Financial Services*	*Sierra Leone Microfinance Sector Development (MITAF II) and AATIF*	*Grant and Trade Finance Agreement*
Proparco	**0.4**	*Agri and Agro-Processing*	*Sierra Agra*	*Debt*
Norfund	**0.57**	*Energy*	*FEI On-Grid Fund and Responsibility Renewable Energy Holding (rAREH)*	*Equity*

Source: Intellecap Analysis

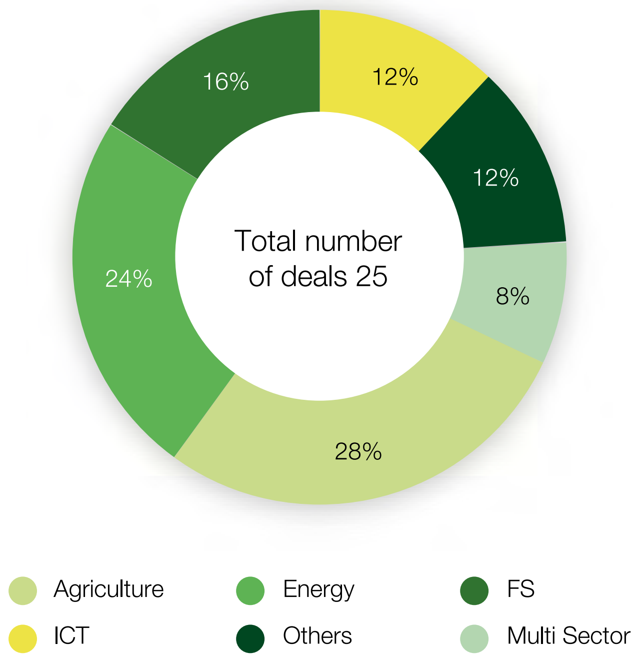
SECTOR PRIORITISATION BY DFIS

Of the total investments in Sierra Leone by DFIs between 2005 and 2019, approximately 70%[100] are in agriculture and agro-industries (including forestry), energy, and financial services. Other sectors that have received investments are ICT, multi-sector, and others (including infrastructure and mining).

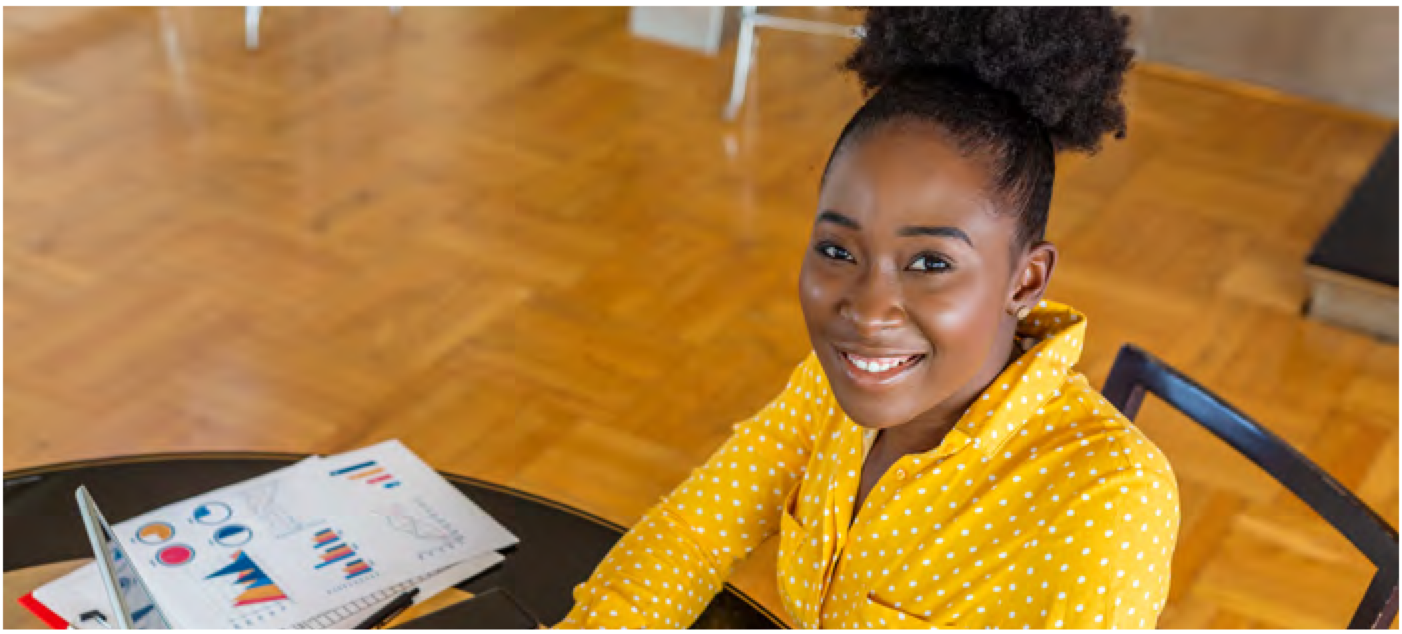
Through their public-private-partnership projects in the country, DFIs have played a crucial role in telecom, energy, and infrastructure, sectors that can support private sector growth, help in job creation, and support community development through a trickle-down effect. As a result of this, DFIs work very closely with the government, thus playing a role in sector policy structuring. Major DFIs such as IFC[101] , AfDB[102] and CDC[103] present in the country have identified sectors such as energy, agriculture and agro-industries, financial services, infrastructure, mining, and education as focus sectors in their latest country strategy. For instance, the 'Western Area Power Generation Project"[104] was part of the 'private participation in infrastructure' projects of the World Bank Group. The project that is still active started in the year 2015. The project's objective was to increase the country's power generation capacity by almost 50% to spur economic growth and job creation. It also aimed to expedite the economic recovery slowed by the Ebola crisis post 2014. Until 2018, the project received support from multiple DFIs and raised a total debt funding of around USD 40 million. While IFC and FMO offered senior debt into the project, CDC offered direct debt/equity investment[105]. Other debt providers included AfDB, Emerging Africa Infrastructure Fund (EAIF), and IDA[106]. In another example, IFC offered a syndicated loan of around USD 25 million[107] in Celtel, a telecom company operating in multiple African countries, to support its mobile network expansion in Sierra Leone in 2007. Through more in-depth cellular coverage, the project aimed to support the private sector development in the country.

Similarly, to promote local businesses, MIGA in 2014 invested around USD 4.8 million[108] in Groupe Europe Handling SAS of France to Sky Handling Partner Sierra Leone Limited that offers airport services. The guarantee issued by MIGA was for a period of up to 10 years and covered the group against the risks of transfer restriction, expropriation, and war and civil disturbance[109]. The investment aimed to offer local business access to the international market by providing airport cargo and ground handling equipment, storage facilities, and services that meet international standards.

Figure 19: Sector wise investments by DFIS, by no of deals



Source: Intellecap Analysis



SPOTLIGHT: DFI INVESTMENTS IN NON-IMPACT SECTORS

Apart from the impact sectors, DFIs also invest in sectors such as mining and construction to support local employment and economy. However, the locals often question the positive impact of such investments, and it is still a matter of debate given the fragile country context. For example, IFC has supported the traditional extractive sector by investing in Sierra Rutile expansion [Refer to Figure 20] to support community development through the project. However, the project has been criticised for its impact on local communities in the location of its operations[a]. The campaigners opposed the project location owing to its adverse effects on water sources and natural farmlands[b].

Figure 20: Sample Deal, DFI, Sierra Rutile Limited

EXTRACTIVE SECTOR

Sierra Rutile Limited

Sierra Rutile, a mining company in Sierra Leone, is one of the largest tax-payers and employs around 2,500 people; IFC thus works with the company to ensure positive impact on the communities.

IFC in 2019 invested in Sierra Rutile to support its operational expansion in Sierra Leone. The mining company seeks to approximately double its rutile production from the current 150,000 tons per year and extend the life of its mine to at least 2035. IFC initially invested USD 20 million for an equity stake of 3.7% and further invested USD 40 million for an equity of total 10%. The project is expected to reap economic benefits and allow local job creation. IFC is also helping the company to implement new community engagement strategy that would improve transparency and develop women and youth focused empowerment program.

- *Investor (s): IFC*
- *Amount: USD 60 million*
- *Investment Type: Equity*
- *Year of Investment: 2019*
- *Sector. Mining*
- *Status: NA*

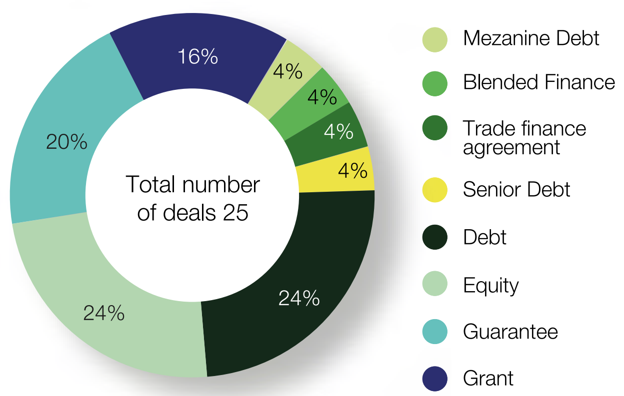
INVESTMENT STRATEGIES ADOPTED BY DFIs

Debt and equity followed by guarantee were the most commonly used investment instruments by DFIs that invested in Sierra Leone between 2005 and 2019. DFIs in the country have supported the enterprises both directly by providing impact investment capital and indirectly by investing in banks/financial institutions/ funds/ facilities/ programs that offer enterprise support.

Concessional Capital: As discussed in the private landscape chapter, microfinance institutes are primary lenders to the micro and SME sector in Sierra Leone, especially in the rural setting. However, most of the microfinance institutes in Sierra Leone cannot expand their services to reach the unserved communities, indicating that demand for financial services far exceeds supply. It is challenging for MFIs to raise funding, given their inability to meet the required standards. Thus, to support the MSME sector, DFIs offer concessional loans to MFIs such as A Call to Business savings and Loans (ACTB), one of the largest regulated MFI in Sierra Leone, offering a range of product to micro and SME segment[110]. ACTB was established in the year 2008 and currently has around 17,000[111] clients majority of which are women. FMO in 2019 offered a loan of USD1.5 million to ACTB as part of The Micro and Small Enterprise Fund (MASSIF) to support on-lending to MSMEs in the country. FMO provided ATCB the loan in the local currency, Sierra Leonean Leones (SLL), to limit the foreign exchange risk for the MFI and its end clients. The fund supported 7,600,786 microloans and 112,300 microloans in the unbanked and fragile states of Sierra Leone (apart from Mynamar and Palestine). Of these loans, the fund offered 61% loans to women-owned and 67%[112] to rural MSMEs.

Guarantee/ Risk Insurance: The private sector's inability in fragile states to attract investments is mainly due to political risk. Of all factors part of political risk, investors in Sierra Leone state breach of contract and adverse political changes as the most pertinent impediments of doing business in the country. Thus, political risk insurance/guarantee plays a crucial role in encouraging investments in fragile states. DFIs such as MIGA has the mission to spur investment capital inflow in FCV countries such as Sierra Leone by providing insurance against risks that are unique to such countries. The IDA's IFC-MIGA private sector window (PSW) extends credit to private companies willing to invest in FCV countries. MIGA, through its guarantee facility (MGF)[113] part of PSW, in 2018, offered a risk guarantee to Sonatel, a telecom company from Senegal, for its equity investment.

Figure 21: Investment Instruments leveraged by DFIs in Sierra Leone, by no of deals



Source: Intellecap Analysis

Sonatel, through its investment, acquired Orange Limited, a telecom provider in Sierra Leone. For the transaction, MIGA issued a guarantee of USD 97.2 million[114]. With the acquisition, Sonatel could expand its telecom network in the unserved and rural areas of Sierra Leone. In another example, as part of the Ebola Banking facility, CDC and Standard Charted signed a risk agreement to offer working capital lending of up to USD 50 million[115] (USD 25 million each) to business in Sierra Leone whose operations were affected by the Ebola crisis.

Figure 22: Guarantee/ Political Risk Insurance Model Framework

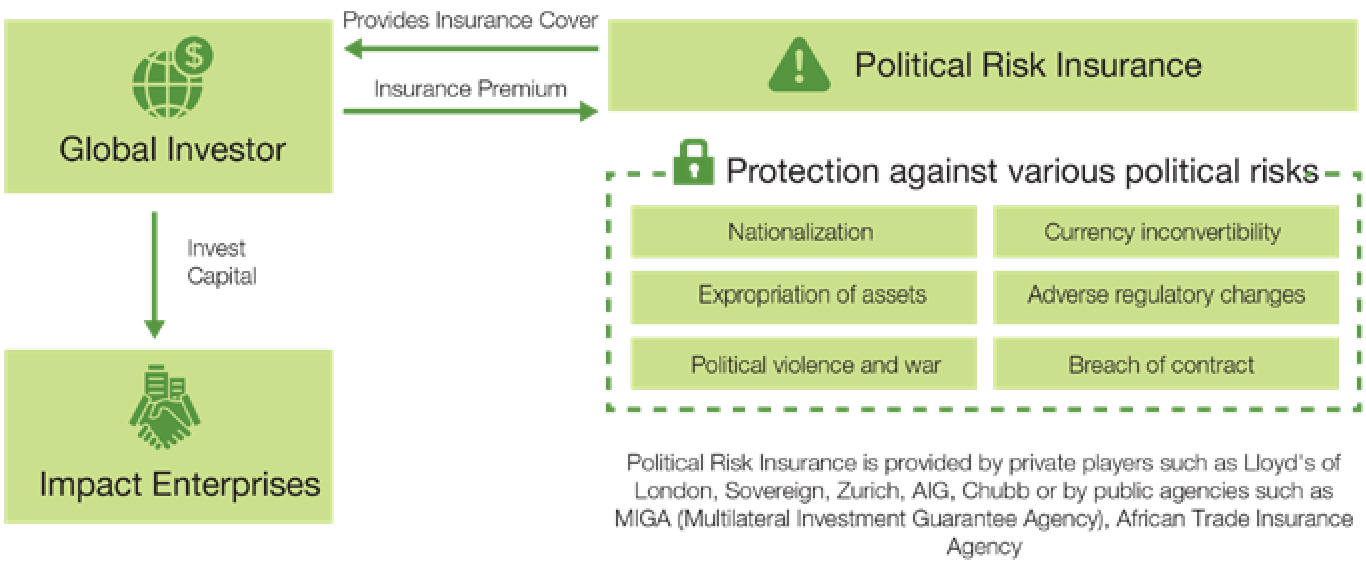


Figure 23: Sample Deal, DFI, Dole Pineapples

AGRICULTURE AND AGRO PROCESSING

Dole Pineapples

Sierra Tropical Limited (STL) a wholly owned subsidiary of Dole Asia Holding began pineapple cultivation in Sierra Leone in 2019. Both the companies are part of a Japanese giant ITOCHU Corporation. STL was able to acquire 574 hectares of land in Bo district for the cultivation through a PPP with the GoSL. The company that employs around 450 local indigenous people also provide them with skill training. The project in three years is expected to create around 3,400 jobs. As part of the project, it also plans to develop an out-grower schemed for tropical fruits (mango, papaya, and passion fruit).

For the project, Dole Pineapples received USD 36 million guarantees from MIGA for design, construction, and operation of the facility. It also received a USD 10.1 million risk guarantee from MIGA as part of PSW. In addition, MIGA was also able to mobilize USD 11 million reinsurance capacity from Japanese credit agency Nippon Export and Investment Insurance (NEXI), who in addition to reinsuring MIGA will also provide the cover against the risks of war and civil disturbance.

- *Investor (s): MIGA*
- *Amount: USD 40+ million*
- *Investment Type Guarantee/Risk Insurance*
- *Year of Investment: 2019*
- *Sector: Agriculture*
- *Status: Active*

a: Sierra Leone: IFC signs USD 60million funding agreement with leading rutile miner, APA News, Jul 2019; http://apanews.net/en/pays/sierra-leone-sierra-leone/news/sierra-leone-ifc-signs-60m-funding-agreement-with-leading-rutile-miner

b: Sierra Rutile gets USD 60 million , Politico SL, Published by Freemedia Group, Jul 2019; https://politicosl.com/articles/sierra-rutile-gets-us-60-million

Technical Assistance: TA is an essential tool used by DFIs that acts as Limited Partners (LPs) in funds in fragile states like Sierra Leone. DFI's TA services primarily focus on helping businesses streamline their strategies and develop the entrepreneurs' skills. TA helps directly address business, environmental, social, and governance challenges of the investments from the suppliers' perspective. In most cases, DFIs offer TA services alongside the capital through TA providers or their own staff. For instance, in 2017, African Development Bank (AfDB), as part of the Transition Support Facility (earlier called Fragile States Facility)[116], offered a line-of-credit (LOC) of USD 3 million to Union Trust Bank (UTB), the only indigenous private bank in Sierra Leone. The facility also had a provision for TA support of USD 320,000[117]. The objective of investment in UTB was to help finance projects and enterprises in transformational sectors such as agriculture, energy, manufacturing and services, with a strong emphasis on women-owned businesses.

In 2018, Dutch Good Growth Fund (DGGF) infused grant investment in the Firestarter Fund[118] and Sensi Hub, a local accelerator program funded by FCDO. DGGF invested USD 0.3 million [119] to enable it to offer capital and incubation support. DGGF also provided an additional grant of approximately USD 66,684 [120] to the Firestarter fund for TA support to startups and existing businesses. So far (May 2020), the hub through the Firestarter fund has supported 26 enterprises.

Equity/Debt Investments: Apart from the instruments mentioned above, DFIs in Sierra Leone has also made direct impact investments in the form of equity or debt. While in some cases, they invest in the private sector indirectly through a fund/facility, in other instances, through their private sector arm also invest directly into private companies. For example, Finnfund, a Finnish Fund for Industrial Cooperation, invested directly in Sierra Leone based enterprise, MiroForestry[121]. Finnfund invested a total of around USD 19 million[122] in equity, debt, and mezzanine [123] for four years from 2014-18. This included the USD 10 million mezzanine debt package co-invested by CDC, FMO, Mirova and others. Miro Forestry, one of the largest forestry in West Africa, is focused on sustainable forestry business. Deforestation, illegal logging, and climate change are acute challenges of West Africa's economies, including Sierra Leone. With an increasing demand for forest products such as timber for industrial purposes, there is a need to incorporate sustainable practices. Miro forestry, while being commercially viable, also lays emphasis on sustainable production. In another instance, in 2018, Proparco, a subsidiary of Agence Française de Développement (AFD) focused on private sector development, invested USD 0.4 million[124] in Sierra Agra, a for-profit agribusiness in Sierra Leone. It aims to improve smallholder farmers' livelihoods by providing stable income and technical assistance that increases farm productivity. MCE Social Capital, a non-profit corporation registered in California, made the debt investment into the business. In a similar example, FMO recently in 2020 offered Easy Solar equity investment of around USD 1.49[125] million.

Figure 24: Sample Deal, DFI, Youth Entrepreneurship Program

MULTI-SECTOR

Youth Entrepreneurship Program

Youth Entrepreneurship and Employment Technical Assistance Project is project part of AFDB's Fund for African Private Sector Assistance. The project aims to promote youth entrepreneurship through improving youth business skills as well as relevant skills/trainings for employability. The project aimed to benefit 2,400 youths through career guidance and counseling, 20 TVET instructors through training : and at least 100 graduates by enhancing their supervisory skills. The project partnered with the private sector to train 150 youths in three selected priority trades and develop their capacities to becomes entrepreneurs.

AFDB offered the project debt of USD 2.34 million in 2016. The project is implemented by National Youth Commission (NAYCOM) as part of the Transition Support Facility.

- *Investor (s): AFDB*
- *Amount: USD 2.34 million*
- *Investment Type: Debt*
- *Year of Investment: 2016*
- *Sector: Multi-Sector*
- *Status: Implementation*

Figure 25: Sample Deal, DFI, Sierra Leone Ebola Banking Facility

SME FINANCING

Sierra Leone Ebola Banking Facility: CDC

CDC and Standard Chartered through the "Seirra Leone Ebola Banking Facility' offered working capital credit to businesses in the country that suffered due to Ebola crises. The facility was for a tenure of 12 months. An amount of USD 12.9 million was drawn on the facility and targeted clients fully paid down on the exposure. In light of this, Standard Chartered also launched a second phase of the facility, of USD 60 million of which USD 32 million was disbursed.

The facility aimed to support businesses that were struggling during Ebola crisis due to acute shortage of capital. The focus of the facility was on companies involved in import and distribution of consumer goods such as food staples, rice, oil, etc in affected zones. The loan allowed business to run at their full capacity without cutting down staff.; as in case of Shankerdas, a Freetown based manufacturer, one of the beneficiary of the facility that employs around 1000 people.

- *Investor (s): CDC and Standard Chartered*
- *Amount USD 50 million*
- *Investment Type: Debt*
- *Year of Investment: 2014*
- *Sector: Financial Services*
- *Status: Exited*

ROLE OF DONORS IN THE IMPACT INVESTMENT SECTOR IN SIERRA LEONE

In Sierra Leone, donors play a crucial role in offering technical assistance and providing funds that target rehabilitation of the fragile state and rebuilding of critical infrastructure. It also plays a part in influencing the political will through government partnerships or funding of government-initiated private sector programs. Sierra Leone has been dependent on foreign aid/grants not only for humanitarian purposes but also for development purposes. Donors such as the World Bank, FCDO, USAID, GIZ, and IDA invested around ***USD 151 million***[126] between 2005 and 2019. Technical assistance and capacity building have been the foremost approach of many donors in Sierra Leone to support private sector development. While some donors such as FCDO and GIZ have developed local/regional TA service to ensure context-specific assistance, others have partnered with local incubators and accelerators with the same objective.

Table 3: Summary Table for Major Donors in Sierra Leone between 2005 and 2019

Donor	Approx. Total Capital Deployed (USD million)	Sector Priorities	Key Investment	Key Investment Strategies
FCDO	**17.2**	*Agri and Agro-Processing and Multi-Sector*	*Sensi Tech Fund, Sierra Leone Agribusiness Development Fund (SLADF), Invest Salone Programme*	*Grant*
GIZ	**32**	*Other (skilling and entrepreneurship)*	*The Employment Promotion Programme (EPP III)*	*Grant*
IDA	**82**	*Agri and Agro-Processing*	*Sierra Leone Agribusiness Development Fund (SLADF), Agro-Processing Competitiveness Project*	*Debt*
USAID	**2.7**	*Multi-sector*	*Regrow*	*Grant / TA*
WORLD BANK	**0.49**	*Agri and Agro-Processing*	*Sierra Leone Agribusiness Development Fund (SLADF)*	*Grant*
MULTIPLE STAKEHOLDERS	**0.2**	*Financial Services*	*The Microfinance Investment and Technical Assistance Facility*	*Grant*

Source: Intellecap Analysis

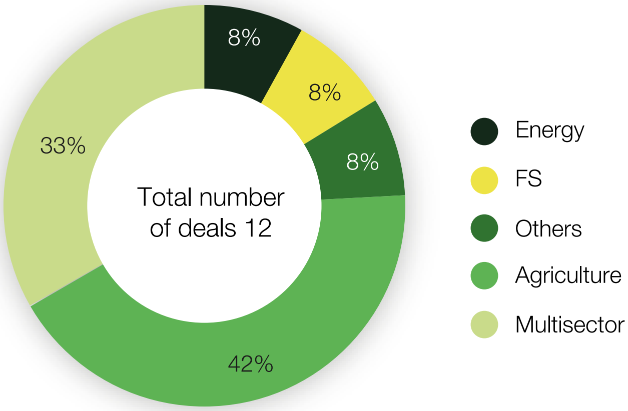
SECTOR PRIORITISATION BY DONORS

In the country, donors are backing programs, initiatives, and funds supporting small and medium enterprises. Most of the investments by donors have been sector agnostic or focused on high impact sectors such as agri and agro-processing. Our research estimated that between 2005 and 2019, agri and agro-processing received support of around USD 69 million while multi-sector support amounted to USD 9.5 million from donors.

Agribusiness has been identified as one of the critical impact sectors and has also seen traction from donors such as FCDO, World Bank, and GIZ that have it as their priority sector for the country's investments. Through, Sierra Leone Agribusiness Development Fund (SLADF), multiple-donors have collaborated to promote businesses in the sector. While World Bank and FCDO offered impact capital in the form of a grant (USD 12 million and USD 15 million respectively), IDA offered concessional capital (USD 40 million)[127] for the program.

The fund, launched in 2016, is expected to close in 2021. It aims to promote smallholder commercialisation by fostering productive business linkages between smallholder farmers and selected agribusiness firms and other commodity off-takers in Sierra Leone. Apart from the support to the agribusinesses, the fund also included developing capacities of the state and non-state institutes, including Ministry of Agriculture, Forestry and Food Security (MAFFS), Ministry of Trade and Industry (including SLIEPA and Produce Monitoring Board); Sierra Leone Agricultural Research Institute (SLARI); and farmer producer organisations.

Figure 26: Sector wise investments by donors, by no of deals



Source: Intellecap Analysis

Figure 27: Sample Deal, Donor, Agro Processing Competitiveness Project

AGRICULTURE AND AGRO-PROCESSING

Agro-Processing Competitiveness Project

IDA has committed to offer USD 10 million credit to Agro-Processing Competitiveness Project. The project aims to improve the business environment in agribusiness sector and increase productivity of targeted agro-processing firms in Sierra Leone. The project components include : i) TA and policy advocacy to government agencies to reduce the burden of regulations in the sector (USD 2 million), ii) establishment of SME TA facility to support SMEs in the sector and offer matching grants to participating SMEs (USD 6 million). The remaining amount (USD 2 million) is allocated for project M&E activities. In Feb 2020 the TA facility launched its first cohort.

The project outcomes would be mapped against the increase in processed products by SMEs(part of TA facility), number of new investments in agribusiness sector, and average cost to comply with EPA regulations.

- *Investor (s): IDA*
- *Amount: USD 2.49 million (disbursed)*
- *Investment Type: TA and Concessional Capital*
- *Year of Investment: 2018 (end in 2023)*
- *Sector: Agriculture*
- *Status: Active*

INVESTMENT/FUNDING STRATEGIES OF DONORS

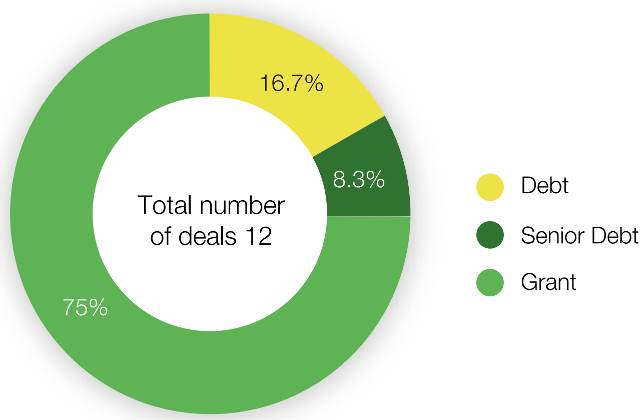
The donors operating in the country offer support to agencies that help enterprises improve their operational capabilities, a critical issue, as cited by many investors. The majority of the investments by donors in the country are technical assistance, followed by impact investments and concessional loans. By offering such services, donors are developing an investable pipeline for commercial investors.

Technical Assistance: A significant number of donors investing in fragile states such as Sierra Leone, having realised the importance of TA and capacity building interventions offers or supports such programs. Some of such donors include FCDO, USAID and World Bank. Donors use TA as a tool to help their portfolio companies. For instance, in partnership, Resolve USAID and Chevron started a program, Regrow[127], in 2017, to promote private sector development in the post-Ebola Sierra Leone economy. The program offers i) technical support and financing for local SMEs, ii) connecting global investors to smaller private enterprises, including PPPs. The plan was launched to support SMEs, focusing on impact enterprises recognised as having significant positive socio-economic and environmental impact on their local communities. Chevron Corporation, a multinational energy corporation, is a critical financial resource partner to the program that invested USD 1 million in the program. The program that received a total of USD 2.7 million as investment aims to support around 90 SMEs with direct cash investments. The program also offers TA support to these enterprises in association with Cordaid's Resilient Business Development Program (RDBS) program. Apart from these SMEs, the program also supports specific high impact Greenfield investment projects.

Equity/Debt Investments: Few donors in the country also support local incubators and accelerator programs that work with very early-stage enterprises to promote the private sector through impact capital. For instance, in 2015, FCDO invested in setting up a local accelerator program, Sensi Tech hub, to support the country's private sector during the Ebola crisis. The hub offers i) entrepreneurship support including crowdsourcing talent, training, access to capital, incubation program, ii) consultancy including grant management (undertaking F4I: Facilitation for an Innovation project for GIZ) and iii) ecosystem building, including facilitating partnerships with NGOs, CBOs, financial institutions, as well as networking opportunities. Sensi Tech Hub also overseas Firestarter Grant Fund, a challenge for grant funding to earlier stage enterprises, earlier funded by Comic Fund (USD 0.4 million[129]). The hub offers grants between USD 1000-2000[130] with/without equity of 2-2.5% (depending on the donor's agreement). Almost 70% of the enterprises supported by the hub are in sectors including agriculture and agro-processing, manufacturing, fashion, and multimedia sectors. By providing business and networking support to startups, Sensi has contributed to building a conducive and vibrant ecosystem for young entrepreneurs in Sierra Leone. Having worked with early-stage enterprises for five years, the hub was able to identify the shift in trend towards technology-based enterprises. The hub learned that for most enterprises, technology had become the base of their innovation.

Donors such as IDA also offer concessional capital in the form of debt to support the private sector. IDA in 2018, through the 'Agro-Processing Competitiveness Project[131]'(2018-2023), began to extend support to the agri-businesses in the country. The project's development objective for Sierra Leone is twofold: improve the agribusiness sector's business environment and increase productivity and competitiveness of agri-businesses and SMEs in select value chains.

Figure 28: Investment Instruments leveraged by donors in Sierra Leone, by no of deals



Source: Intellecap Analysis

Figure 29: Sample Deal, Donor, Invest Salone

MULTI-SECTOR

Invest Salone

Invest Salone is a private sector development programme. The programme aims to allow realization of benefits from international trade in export sectors including agriculture, tourism, fisheries, and manufacturing. Invest Salone offers policy advocacy with the aim to reform the business environment and simplify processes for newer enterprises. It also offers Technical Assistance (TA) to innovative social businesses. Owing to the ongoing COVID-19 pandemic, the programme plants to launch 'Compete Salone' which is a matching grant fund (2.5 M) to support business in tourism, agriculture and light manufacturing.

In 5 years, the program intends to improve livelihoods and incomes of around 3,70,000 people and create new jobs due to investments in non-extractive tradeable sectors.

- *Investor (s): FCDO*
- *Amount: USD 40.34 million*
- *Investment Type: Program*
- *Year of Investment: 2018 (ends in 2023)*
- *Sector: Multi-Sector*
- *Status: Active*

Grants: Donors in Sierra Leone offer grant funds indirectly through projects and programs to encourage private enterprises. For instance, GIZ in 2016, offered a USD 32 million[132] grant fund for 'The Employment Promotion Programme (EPP III)' The programme, which is expected to be completed in 2020, has adopted an integrated approach to employment promotion, focusing on labour market supply, demand and policy. It provides mentorship, coaching, and access to finance for entrepreneurs. Until Dec 2019, the programme created employment opportunities for 9,367 individuals, trained around 36,250 youth, and supported around 1,200 enterprises. Other donors adopting a similar approach of indirect investments are World Bank, USAID, and FCDO.

ROLE OF IMPACT FUND MANAGERS (PEVC) IN THE IMPACT INVESTMENT SECTOR IN SIERRA LEONE

Almost 13 private impact fund managers invested around ***USD 163.1 million***[133] in the country between 2005 and 2019[134]. Some of the active private fund managers in Sierra Leone include Manocap, WAVF, Cordaid, Arbaro Fund, Gaia Impact Fund, SIMA Fund, Acumen, and Trine. Over the past decade, only a few private equity and venture capitalists (PEVCs) (Manocap, WAVF, Phatisa, and Truestone) have established ongoing operations in Sierra Leone and have cumulatively injected around USD 102 millions[135] of funds into approximately 50 companies in the past decade. PEVCs directed most of the capital towards SMEs, with an average of USD 400,000-500,000[136] per transaction. Our research was unable to identify any formal angel investors in Sierra Leone, and the impact capital available to early-stage enterprises is limited to grant programs except in a few cases. Due to the fragile context, global investors to Sierra Leone are cautious while investing in the country and thus adopt either indirect investment mechanisms or resort to non-conventional investment instruments such as blended finance and mezzanine.

Table 4: Summary Table for Major Private Fund Managers in Sierra Leone between 2005 and 2019

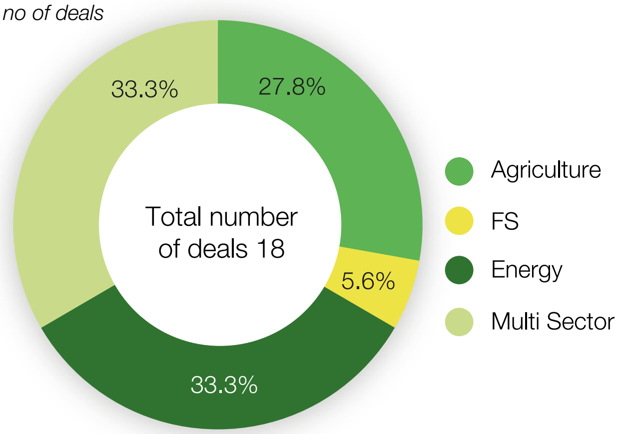
Private Fund Managers	Approx. Total Capital Deployed (USD million)	Sector Priorities	Key Investment	Key Investment Strategies
AECF	1.4	*Agri and Agro-Processing*	*GoldTree, Bio United, and Balmed*	*Grant, Matching Grant*
ACUMEN	3.01	*Energy*	*Easy Solar*	*Equity*
PHATISA	20	*Agri and Agro-Processing*	*GoldTree*	*Equity*
ARBARO FUND	20	*Agri and Agro-Processing*	*Miro Forestry*	*Equity*
CORDAID	7.7	*Multi-sector and Energy*	*Stability Impact Fund, RDBS, and Easy Solar*	*Debt and Grant*
AGDEVCO	3	*Agri and Agro-Processing*	*Tradin Sierra Leone*	*Blended Finance*
GAIA IMPACT FUND	1.5	*Energy*	*Easy Solar*	*Debt*
MANOCAP	22	*Agri and Agro-Processing*	*Sierra Investment Fund and Soros Economic Development Fund*	*Equity*
SIMA Fund	0.5	*Energy*	*Easy Solar*	*Equity*
STANDARD CHARTED	25	*Financial Services*	*Sierra Leone Ebola Banking facility*	*Debt*
TRINE[137]	2	*Energy*	*Easy Solar*	*Debt*
TRUESTONE	20	*Multi-sector*	*Multiple*	*Equity*
WAVF	40	*Multi-sector*	*Multiple*	*Equity*

SECTOR PRIORITISATION BY IMPACT FUND MANAGERS

In Sierra Leone, the private impact fund managers' capital is focused primarily on agriculture, energy and financial services, with a significant proportion deployed in 'multi-sector'. Sector focused investors such as Cordaid, Acumen, Gaia Impact Fund, and AgDevCo have also invested in the country, boosting the local businesses from the concerned sectors. AgDevCo has committed an impact investment (debt/equity) of USD 3 million[138] in Sierra Leone. In 2019, it made an investment of USD 1.5 million in Tradin Sierra Leone, an organic cocoa exporter providing premium prices to smallholder farmers. The investment was to support the working capital needs of the company.

Social Investment Managers & Advisors (SIMA) Fund invests in renewable energy startups, SMEs, and infrastructure projects to have a high social and environmental impact. In 2018, SIMA invested USD 500,000 in Easy Solar, a Pay-as-you-go enterprise in Sierra Leone. The investment in a clean energy company was part of the geographical mandate of the investment strategy. Cordaid investments in Sierra Leone, on the other hand, has invested into sectors including agribusiness with 25% of total portfolio investments to this sector, MFI (25%), services (24%), renewables (24%), manufacturing (12%).

Figure 30: Sector wise investments by Private Fund Managers, by no of deals

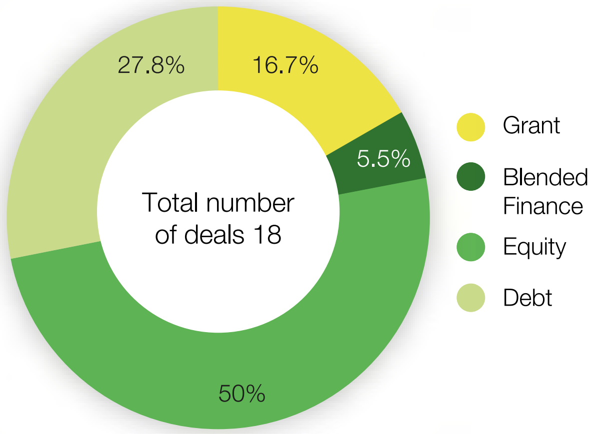


Source: Intellecap Analysis

INVESTMENT STRATEGIES OF IMPACT FUND MANAGERS

As a characteristic of a fragile state, Sierra Leone also has limited investment absorption capacity, especially of equity; thus, only a limited number (9 of the total number of deals) of equity investments have been made in the country. Some private fund managers offering equity investments include Manocap, WAVF, Phatisa, Acumen, SIMA Fund, and Truestone. Due to high risk, other investors sought to either traditional tools (loan) or use tailored instruments such as investing equity stakes in permanent capital vehicles (PCVs) and using mechanisms such as self-liquidating debt to improve chances of exit. While some investors offer financial capital and TA, few others only assist in the form of the latter.

Figure 31: Investment Instruments leveraged by Private Fund Managers in Sierra Leone, by no of deals



Source: Intellecap Analysis

Impact Investments and Technical Assistance: Most of the PEVC impact funds active in Sierra Leone raise funds from DFIs. Being an anchor investor in fragile markets, IFC set up an SME venture fund in Sierra Leone called the West Africa Venture Fund (WAVF). The Mauritius registered fund was among the first risk capital fund in Sierra Leone. WAVF aimed at kick-starting the high-growth private sector SMEs in the post-war economies of Sierra Leone and Liberia. The USD 40 million fund that started in 2010 struggled to raise its initial funding target due to political risk, regulatory concerns, negative investor sentiments for the region. However, while the region was going through its worst crisis due to the Ebola outbreak, Cordaid supported the fund with a grant of approximately USD 4.5 million[139] in 2014. WAVF aimed to invest in at least 40 enterprises from the two countries (Sierra Leone and Liberia) and made an actual investment in 25 enterprises, 12 of which were from Sierra Leone. The sectors of investments included agribusiness, hospitality, manufacturing, and logistics, except the mining and oil sectors. The fund's investments, which took the form of venture capital, were between USD 100,000 and 500,000. For entrepreneurs in Sierra Leone, this capital size is tough to obtain from conventional sources such as commercial banks. The fund invested almost one-third in equity and two-thirds in loan or 'loan like instruments'. Apart from the investment, WAVF also supported each investee with technical assistance and coaching to bridge the skill gap, one of the critical challenges restricting their enterprises' growth. WAVF is currently in the process of liquidating its investments in Sierra Leone.

Other examples include PEVC impact funds that have made Sierra Leone investments as part of their investment strategy mandate requiring them to invest in the African continent. For instance, SIMA fund, a US-based impact investment firm in 2018, invested USD 0.5 million[140] in Easy Solar. Similar in 2018, ARBARO fund, a Luxembourg-based private equity fund managed by FiM Asset Management S.à r.l. and advised by Arbaro Advisors GmbH, invested USD 20 million[141] in Miro Forestry. Gaia Impact Fund, a French impact investment fund specialising in renewable energy, is another example in the segment. The fund, in 2018, invested USD 2 million[142] in Easy Solar along with other investors (Acumen and Cordaid).

Figure 32: Sample Deal, Private Fund Manager, Truestone

MULTI-SECTOR

Truestone

Truestone, private equity firm operating in Sierra Leone for over 10 years and have investments in about 9 SMEs from West Africa region (7 from Sierra Leone) of varying growth stages. The firm have invested across multiple sectors including microfinance, ICT, multimedia, food food , construction and logistics. The portfolio has been funded by private investors and few DFIs such as FMO, Triple Jump and Cordaid. Truestone is one of the few investors' offering capital to social enterprises in West Africa region. The ticket size of investments by Truestone ranges between USD 500,000 to USD 5 million.

Since its inception, through its investments Truestone has been able to create the following impact:

- *1,791 job created/maintaind*
- *215 students enrolled in school*
- *16, 410 individuals provided with access to electricity*
- *17 new businesses created*

- *Investor (s): FMO, Triple Jump and Cordaid*
- *AUM: USD 20 million*
- *Investment Type: PE*
- *Year of Investment: NA*
- *Sector: Multi-sector*
- *Status: Active*

In a few cases, private impact fund managers offer TA services along with impact investments. Impact investments by private fund managers in the fragile states have laid much greater emphasis on the combination of TA and financial support. The TA facility builds the portfolio pipeline for the investors and helps investors identify key sectors and business maturity levels. For instance, Cordaid, one of the most active impact investors in the country, offers impact investments through Stability Impact Fund (SIFA) and TA through Resilient Business Development Services (RDBS) accelerator program.

Cordaid established SIFA in 2014 to provide inclusive and affordable finance for the growth of micro, small, and medium enterprises (MSMEs) in fragile economies like Sierra Leone, among others (Ethiopia and the Democratic Republic of Congo). The USD 10.2 million (USD 4.6 million committed for Sierra Leone) SIFA fund, apart from offering direct financial to enterprises, also invested in MFIs that could further provide low-cost credit to target enterprises. Through a 6-8 months RBDS training program, Cordaid offers business development programs and technical assistance services to enterprises. The program's objective is to support the private sector and highly motivated and skilled entrepreneurs, especially in the private sector. The program also offers business training, business coaching services for SME owners, peer-to-peer learning, ecosystem events, and technical advisory services to set up plans and frameworks in management. The program has attracted companies from sectors including agribusiness, services (hotels, restaurant, retail, trading), and light manufacturing sectors. While there was no women-entrepreneur focused training, the program gives such enterprises preference during the selection process. The training's total value is estimated to be around USD18,248 and requires the SME to contribute a small amount. Until 2019, the organisation has completed three cycles and had trained around 60 businesses while investing around USD 1.3 million[143] through the process. Of the total number of enterprises, seven have received investment, of which 4 received loans from Ecobank through ReGrow program. In 2015, SIFA started direct investments to the enterprises, identified through its TA programs, that were generating jobs in sectors vital for the economy. Although the fund investments have stopped, Cordaid still uses a two-track approach to support SMEs in Sierra Leone: business development (TA) leading to direct investments and access to finance (by investing in MFIs). Other examples of such impact investors that offer TA include WAVF and AgDevCo.

Investors with a global mandate investing in FCV countries-back local investors to hedge against the political risk. These locals have access to relevant local stakeholders and resources and can navigate through the political terrain. However, as highlighted by CDC, in such cases, investors work very closely with the local partners, especially if they are first-time fund managers. In an instance, Manocap, a USD 22 million[144] regional venture capitalist, was supported by the CDC (USD 5 million[145] investment), Soros Economic Development, and HNIs from the UK. The CDC's investment made in 2009 was one of the first private equity commitments from a DFI after the war ended in 2002[146]. Investments from the likes of CDC help such funds operating in a fragile context to attract capital in the future.

Manocap, since its launch in 2009, has invested a total of USD 14 million[147] in 9 enterprises in Sierra Leone across sectors including food and agribusiness, aquaculture, infrastructure, and mobile payments segment. While it has made investments in both equity and debt, it prefers convertible debt instruments intending to lower the risk given the state's political scenario. The ticket size of investments ranges between USD 50,000 to USD 5 million. One of the largest investments made by Manocap is in Sierra Fishing Company, a vertically integrated seafood supplier in Sierra Leone. The company employs around 250[148] people and has an offtake arrangement with independent fishers near Freetown. The company also works with 400 women that help distribute the produce to local stores and markets. Manocap also offers technical assistance to Sierra Leone businesses through a Business Development Initiative funded by FCDO.

Although there are some viable investment opportunities at around USD 5 million or less many impact investors with global mandate have a minimum investment limit exceeding USD 5 million. Owing to this, many of the investors have adopted innovative investment models. For instance, Acumen, in 2018, invested (undisclosed amount) in Azimuth, a Pay-as-you-go solar company (trading as Easy Solar in SL), through a hybrid fund, the Pioneer Energy Investment Initiative (PEII)[149], also supported by FMO, IKEA Foundation, FCDO, Signify Foundation, Autodesk Foundation and others. Another enterprise, Miro forestry, raised mezzanine debt of around USD 19 million from Finnfund (cumulatively over the years) that was clubbed with equity kicker from Arbaro fund (USD 20 million), allowing the firm to reduce the cost of investment from 15% to 5%[150].

It is often highlighted that these PE investments' success is a direct function of knowledge of the fund manager's local context. One of the most successful investors from the PEVC segment, Truestone Investors, has investments in 8 companies in Sierra Leone. It primarily targets SMEs across diverse sectors, including financial inclusion, poultry, IT and media. The company has around USD 20 million assets under management in Sierra Leone. The investors having a local presence have been able to reap the advantages of being able to source and complete deals effectively without the need for intermediaries. The company also provides consultancy and project support to the investee companies.

Grants: Few impact funds operating in Sierra Leone offer direct support to enterprises through short-term patient support capital (grant). Funds offer these grants i) as part of a challenge wherein enterprises compete based on their business models, or ii) as matching/ returnable grant, mostly including services such as advisory and information support. The Africa Enterprise Challenge Fund (AECF)[151], established in 2008, provides catalytic fund as repayable and non-repayable grants to businesses. Through its challenge-based grants, it has so far supported six [152] enterprises from Sierra Leone. AECF in Sierra Leone primarily focuses on the agriculture and allied sector, with five of its six grantees in the country being from the sector. Apart from the challenge funds, it also offers grants to businesses to undertake pilot projects. For instance, AECF in 2008 showed a USD 450,000[153] grant to GoldTree to assist the enterprise in being able to source fruit bunches from farmers efficiently. With the fund, the enterprise offered 'walking tractors' to the farmers on lease that helped them transport the fruits through areas with poor road conditions. In over six years of intervention, the intervention by AECF made an impact benefit of around USD 540,000[154].

Figure 33: Sample Deal, Private Fund Manager, AgDevCO

AGRICULTURE AND AGRO-PROCESSING

AgDevCo

AgDevCo that has committed to invest USD3 million in Sierra Leone to support the agriculture sector given its huge contribution to employment. By supporting scalable agribusiness ventures in the country it is aiming to support the sector growth. AgDev in 2018 was funded by FCDO (SL) to identify such projects in the country. Through the commitment to the sector, AgDevCo aims to impact 6,000 smallholder farmers (SHFs) and enable them to earn an annual income of USD 550,000.

In 2019, AgDevCo invested USD 1.5 million in Tradin Sierra Leone, an organic cocoa cultivating enterprise working with SHFs. The enterprise works in Kenema region and began its operations in 2017. It has since been successful in developing a network of trained buying agents while ensuring complete traceability of each bag of cocoa. The AgDevCo investment offers working capital assistance to the enterprise. The enterprise has also secured funding for AgDevCo Smallholder development Unit (SDU) in Sierra Leone. The SDU is managing a budget of USD7,50,000 to establish farmer field schools, replant cocoa trees, tackle fungal diseases, thus benefiting around 5,600 SHFs. The unit is also supporting in certification of 20,000 farmers as organic cocoa producers.

- *Investor (s): AgDevCo*
- *Amount: USD 1.5 million (disbursed)*
- *Investment Type: Debt / Equity & Technical assistance*
- *Year of Investment: 2019*
- *Sector: Agriculture*
- *Status: Active*

CHALLENGES FACED BY IMPACT INVESTORS IN SIERRA LEONE

Macroeconomic, Political and Security Risks: Macroeconomic instability coupled with high political and security risks is significant concerns for investors in Sierra Leone. Taking evidence from the Ebola crisis about the link between health and economic crisis, investors are expecting a more considerable economic impact from the recent Covid crisis. Although the country was reasonably stable politically before the Covid pandemic, there is a wave of rising public anger over repression, poverty, and inflation due to virus containment measures that deter economic activity. Besides, investors fear spillover from wars and conflicts in neighbouring countries that can affect Sierra Leone's business by disrupting logistics and transport. Such risks also cause significant delays and cancellations in projects and results in high costs for the investors dampening their investment interest in the economy.

> *"A lot of individuals in Sierra Leone are entrepreneurs out of need without any desire to own a business. Thus, in such a scenario the aspect of regulation adds an element of reluctance; this leads to many businesses not willing to formally register their business. Most of them don't want to be visible, with the aim to avoid paying taxes and spending on licences"*
>
> *Executive Director, a donor funded program to promote SMEs in Sierra Leone*

Lack of country-level data and context: For the first time, global investors to a fragile state like Sierra Leone, undertaking feasibility study and research are mandatory. However, the usual 'fly in and fly out' arrangement for consulting assignments is not feasible in such cases due to the high cost. Many of such investors thus associate with local partners/ fund managers. In such cases, much of the investments' success depends on fund managers' skills and network. In case of a crisis, investors rely on the fund managers' ability to manoeuvre around the situation and make steady decisions with support from resilient networks; failing to do so can dampen the investments' success. Beyond systemic risks of weak regulations, opaque data also affects investment decisions and successes. There is significant information asymmetry between investors entering the markets for the first time and enterprises seeking outside capital. One of the venture capital funds present in Sierra Leone during discussions stated incurring severe financial loss owing to this challenge.

> *"There is need for active angel network in SL that will be able to invest and promote specific sectors. This network can then be backed by DFIs… I also believe we need to develop a huge set of businesses that have disruptive model. SL is an old economy, it does not use technology and does not utilise human resources in creative way. There is a need to change that."*
>
> *Managing Director, Incubator and start-up challenge platform*

Currency risk: The foreign exchange reserves of the country have risen; however, growing macro-economic weakness, falling export earnings, high inflationary pressures, and a large current account deficit makes Leone highly volatile, making investors wary of investing in the country.

Market size and structure: The private sector landscape in Sierra Leone is dominated by informal businesses that usually lack proper documents and are, in many cases, un-registered. Thus, the challenges begin at the first step for many support agencies that help these enterprises raise investments. Lack of essential formal documents such as registration, record books, financial plans, etc., makes business evaluation and due diligence challenging, resulting in long delays. Investors looking to invest in micro and small businesses also face similar challenges.

Lack of skilled and competent entrepreneurs: Entrepreneurs in Sierra Leone often lack the adequate skills and competency needed to make their business ventures into bankable propositions. A gap in local talent makes it difficult to find good management. Years of conflict leading to brain drain (conflict-related migration) have left behind a labour pool that often struggles to provide the middle management layer necessary for business expansion and growth. Investors state that entrepreneurs lack expertise, and it is equally challenging to find and recruit senior management. Most employees and staff also lack the skills to manage business complexes. The challenge was especially relevant for venture capitalists that mostly invests in startups. Our discussions with stakeholders highlighted that these entrepreneurs usually lack the necessary skills and are 'unreliable'. Although some businesses offer their employees training, there is a common perception that they would leave once they acquire the skill. There are increasing numbers of formal and informal organisations providing skill training to potential entrepreneurs. However, there is a dire need to streamline these training programs through context-specific research to align them to the local context requirements. Although a few donors and aid organisations have invested in entrepreneur training and technical assistance, the impact is limited to a few enterprises.

Inadequate business support environment: The business ecosystem in fragile states, specifically Sierra Leone, is weak with low quality and scarce availability of lawyers, accountants, and consultants. The absence of such an ecosystem severely affects the startups in the region that suffer from a lack of business support services. The lack of reliable local SME accounting firms makes many investors wary since it affects the enterprise's financial accountability due to their inability to produce day-to-day accounts that skip cash transactions (only accounting for bank statements). The legal support from lawyers in the country is limited. It is often highlighted that lawyers lack the required knowledge needed to support startups and are very expensive.

Reluctance to equity or other innovative finance: Entrepreneurs in Sierra Leone are more comfortable with debt and less familiar with equity. Many entrepreneurs displayed reluctance to cede ownership with external investors. The country's private sector, which was earlier dominated by family-owned businesses, was more prone to having a strong sense of legacy, thus being repulsive to shared ownership ideas. Our research found that the misaligned understanding of equity is continuing in the newer and younger entrepreneurs as well that are learning from older businesses.

05

ENABLING ENVIRONMENT FOR SOCIAL ENTERPRISES & IMPACT INVESTORS IN THE REGION

The assessment of the enabling environment for social enterprises includes reviewing the existing policies and regulations for private sector development in the country. The section also covers the landscape assessment of Ecosystem Support Organisations (ESOs) in Sierra Leone. The evaluation of the entrepreneurial support agencies is based both on desk research and conversations with ESOs from the country.

OVERVIEW OF THE POLICY AND REGULATORY LANDSCAPE FOR PRIVATE SECTOR AND INVESTORS IN SIERRA LEONE

The facet of private sector development through investments in the country began after 2002 with the most ambitious reforms agendas. These efforts have significantly eased the regulatory landscape for investors (primarily global) in Sierra Leone and echoed by a few investors interviewed as part of this study. The country has an open legal regime for the entry and establishment of foreign investment. There are no sectoral restrictions on foreign ownership of Sierra Leonean assets or businesses. Another aspect of benefit for foreign investors pertains to the repatriation of profits. Foreign investors are free to transfer funds (profits) from abroad after duly paying their taxes, and this includes dividends paid to a parent company incorporated outside Sierra Leone[155.]

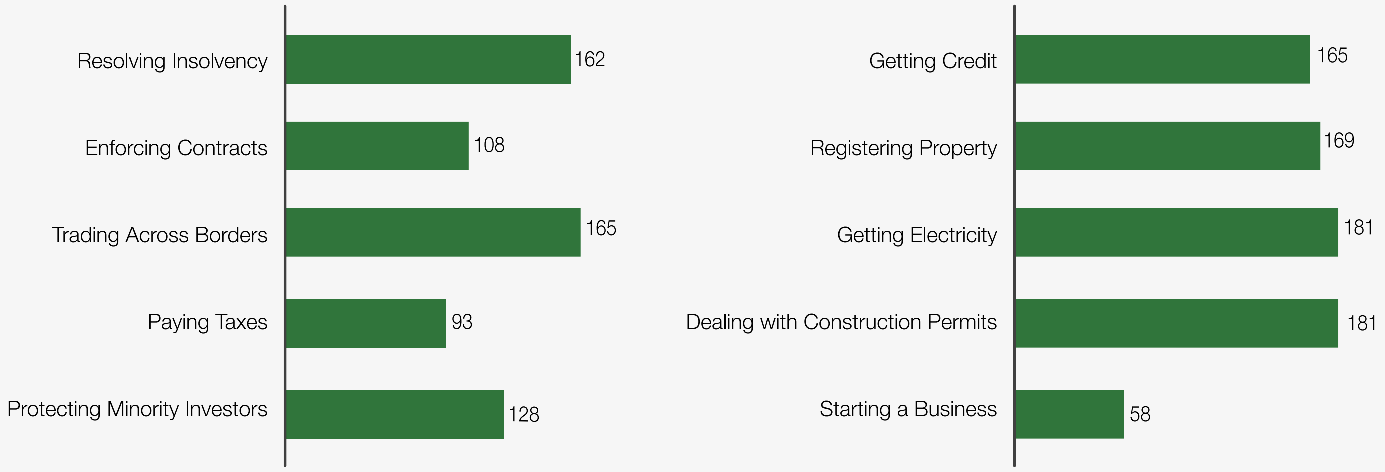
SPOTLIGHT: POLICY HIGHLIGHTS FOR FOREIGN INVESTORS IN SIERRA LEONE

- *There are no sectoral restrictions on foreign ownership of Sierra Leonean assets or businesses.*
- *Foreign entities may acquire a leasehold interest of up to 99 years in the western areaa.*
- *Foreigners cannot own land outright in provinces but can lease it for not more than 55 years with an option to renew for second and further terms, not exceeding 21 years. In order to acquire such an interest, an applicant must obtain the consent of the Chiefdom Council and the approval of the Provincial Secretary or Chief Administrative Officer.*
- *Investors are also able to freely repatriate funds received from the liquidation of a business and awards from the settlement of disputes.*
- *The country also allows free transfer of repayments of principal and interest on third party loans contracted outside Sierra Leone and registered with the Bank of Sierra Leone without restriction, subject to the payment of any withholding tax due.*

However, the country still lags behind its regional counterparts in the Ease of Doing Business attributed to challenges in implementing the regulations. The country ranked 167 out of 190[156] countries in the World Bank's Ease of Doing Business (EoDB) Index in 2020. Specifically, the country ranked unfavourably in parameters such as getting electricity, dealing with construction permits, registering property and accessing credit. The EoDB score slightly improved to 47.5 from a score of 46.9 in 2015. Further, the country ranked 119 out of 183 countries in the Transparency International Corruption Index 2019[157], indicating bureaucracies in the business and investment environment. Foreign investors often find themselves confused while dealing with government agencies and ministries due to complicated processes and structures resulting from the high level of corruption; this poses challenges for the investors to carry out due diligence. The government, however, recommends foreign investors to connect with Sierra Leone Investment and Export Promotion Agency (SLIEPA) to receive advice on investment opportunities, including exploring potential joint ventures or facilitating community sensitisation or engagement[158].

> *"The regulatory and enabling environment is very weak and challenging for businesses; weak property laws, land laws are old, collateral registry is costly and cumbersome at Central Bank."*
>
> *Investment Manager, Global Donor Agency*

Figure 34: Ease of doing business parameters in Sierra Leone, 2020



Source: World Bank Ease of Doing Business report, 2020

There is a lack of impact investment focused policies and legislations in the country. The impact investment sector remains nascent in the country, and no deliberate efforts have been made to recognise social/impact entrepreneurs and investors. Enterprises in the country are classified as either not for profit (NGOs, Foundations, Common Initiative Groups, and Community Associations) and for-profit (e.g. Ltd companies). Thus, impact businesses face similar legislation as all other businesses in the country despite their deliberate focus on creating social and environmental good. Incentives for impact investors to focus on these enterprises are also non-existent. There is a need to incorporate impact investment as one of the funding models and mainstream investments managed by national agencies.

The country's Medium-term National Development Plan (MTNDP) 2019–2023 has emphasised the private sector's role in economic growth and outlines critical development sectors that present the highest opportunities. The government has identified the private sector as playing a crucial role in infrastructure development such as energy, information communication technologies, water, and transport facilities. The plan also highlights the proposed investment in an ecosystem that would encourage private sector growth. Additionally, the government has established sectoral policies and strategies targeting the key impact sectors.

Table 5: Government Policies and Strategies in Key Impact Sectors

Sector	Policy/Strategy	Objective	Relevance for Private Sector
Agriculture	*National Agricultural Transformation Policy 2019-23 (NATP); USD 798 million*	*(i) improving policy coherence, joint and strategic planning, coordination, research, and resource mobilisation (ii) Making youth and women catalysts for agribusiness development (iii) Investing in transformative technology such as mechanisation, irrigation, water management and remote sensing.*	*The plan aims to strengthen small and medium-scale farmers' productive capacities and provide an enabling environment for large-scale farming and agribusiness development.*
	The National Sustainable Agriculture Development Plan 2010-2030 (NSADP)	*(i) Improve agricultural sector growth (ii) Increase the income of farming households (iii) Improve food security*	*The plan encourages private sector participation in agriculture by promoting commercial farming through the Smallholder Commercialization Programme (SCP)*
Energy	*Sierra Leone's Energy Efficiency Policy (EEP) and National Energy Efficiency Action Plan (NEEAP)*	*(i) Financing, Capacity building, (ii) Awareness-raising, (iii) Legal and regulatory, (iv)Institutional support and cooperation, (v) Research and development, (vi) Residential, Public, and Planning and policy implementation*	*Through the plan, the government coordinates with multiple stakeholders involved in national lighting efficiency efforts, including the private sector. As part of the energy efficiency policy, the government has also eased import restrictions on renewable energy products to support the energy space's private sector.*
Financial Services	*National Financial Inclusion Policy*	*Prioritise new and innovative partnerships to ensure that common service standard and shared delivery channels are built to improve outreach and lower cost for the customer*	*The policy encourages private sector participation to improve financial inclusion in the country. Digital payments are a crucial pillar to the strategy and thus would support enterprises offering related services.*
Health	*National Health Sector Strategic Plan (HSSP) (2017-21)*	*(i) Create a dedicated legal unit within The Ministry of Health and Sanitation (MoHS) to improve the legislative framework for health in Sierra Leone (ii) Improve the legislative framework that governs the health sector*	*As part of the HSSP, GoSL plans to commission new research and landscape analysis to better understand and engage the private sector by establishing associations and critical bodies. The government expects to improve the contribution of the private players to the sector [159] through these interventions*
	Reproductive, Maternal, Neonatal, Child and Adolescent Health (RMNCAH) strategy	*Increase access to and utilisation of quality, evidence-based RMNCAH high impact interventions*	*The strategy aims to improve the private sector's participation and improve coordination with other RMNCAH stakeholders to improve accountability and efficiency. MoHS also seeks to ensure the involvement of the private sector in coordination forums.*
	Human Resources for Health (HRH)	*To plan, produce, deploy, and maintain a resilient, highly motivated health workforce that can contribute to national socio-economic development by ensuring equitable, affordable and high-quality health care services for the population of Sierra Leone*	*The MoHS aims to establish partnership and cooperation among private, public, and not-for-profit stakeholders to achieve the goals of HRH strategy*

ECOSYSTEM SUPPORT FOR SOCIAL ENTERPRISES

Sierra Leone's enterprise support ecosystem remains inadequate, with most support organisations based in urban centres. The research mapped 25 ESOs who include regional incubators, accelerators and global faith-based organisations, and private foundations160 (refer to Annexure 1 for a list of ESOs). Most of these organisations are based out of Freetown and thus have limited focus and reach to rural areas. Only a few ESOs focus solely on providing support to socially, environmentally, and ethically responsible enterprises.

Most ESOs are sector agnostic and support and nurture private sector social enterprises at different growth stages. Most of the ESO in the country offer support to the idea, startup, and early-stage enterprises. Almost all of the ESOs in Sierra Leone are sector agnostic, with only a few exceptions. For instance, SL Agcelerator offers business support to SMEs in agro-processing. The accelerator is part of The Sierra Leone Agro-Processing Competitiveness Project (SLAP- CP). The first cohort of the agribusiness accelerator, which is still active, has 25 MSMEs funded by World Bank and administered by Macroeconomics, Trade and Investment (MTI) Global Practice.

Case Study 12: Example of ESO in Sierra Leone

INNOVATION SL, AXIS AND GLOBAL ENTREPRENEURSHIP NETWORK

Innovation SL, a local incubator/accelerator program launched in 2017, is a local partner for Global Entrepreneurship Network (GEN) Sierra Leone, Start Up Huddle, Global, Entrepreneurship Week, Future Agro Challenge, Creative Business Cup, and Freetown Pitch Night. Innovation SL also runs a co-working space and an incubation platform, Innovation Axis. Innovation axis is currently working with 14 enterprises, of which nine are at the pre-incubation (business plan stage) or incubation stage. At the same time, the remaining have reached the validation (product/market fit) stage. While the program does not offer capital, it values its services at USD 1,000 per month.

In some cases, Innovation SL also takes an equity stake in enterprises in exchange for its services. It also partners with capital providers, such as Ecobank and Cordaid, to identify investable enterprises through their incubation programs. Innovation axis also runs pitch night competitions for a share of USD 1 million awards.

Organisations such as Life by design and Young Africa Leaders Initiative (YALI) Network offer entrepreneurs capacity building training. These organisations also offer business development advisory services. Most of such organisations are supported by donor funds. The US government launched the YALI initiative in the year 2010 to empower the younger population between the age of 18-35 from multiple countries in Africa, including Sierra Leone. The initiative provides leadership training, networking, and professional development activities to these young fellows. The initiative has around 8-10 participants from Sierra Leone in each cohort of 100. Until 2020, YALI has supported eight cohorts. Few donors such as FCDO and GIZ Sierra Leone also offer capacity building and technical assistance services.

The private foundations operating in the country offer grants either through an inhouse incubation program or through grant-challenges. For instance, the Tony Elumelu Foundation (TEF) offers design stage grants to the idea and early-stage enterprises. The foundation runs an annual competition in the continent intending to support young entrepreneurs in the African countries. The foundation aims to empower women and men across the continent to catalyse economic growth, create jobs, and eradicate poverty. In 2015, the foundation started the TEF Entrepreneurship Programme and committed USD 100 million for 1,000 African entrepreneurs over the next ten years. Apart from the design stage grant money to businesses, the foundation also offers business development support. In 2017, the foundation supported six enterprises from Sierra Leone and supported another six in 2018[161]. The foundation works in partnership with the International Committee of Red Cross, UNDP, and Indorama, along with other international organisations. In another instance, Aurora foundation[162], a not-for-profit organisation started in 2007, offers pre-acceleration support to startups even at the ideation stage. The foundation earlier used to run Sierra Leone Adult Education Association to educate and train Sierra Leoneans in skills (tailoring, pottery and weaving) to help them earn livelihood in a post-conflict economy. Over the years, the foundation has shifted its focus to the private sector. The foundation also allows these enterprises to present their pitches to investors. The foundation is sector agnostic and works with various sector experts who act as mentors to these enterprises.

Through initiatives such as The Directorate of Science, Technology and Innovation (DSTI), the government promotes innovation in partnership with the private sector. Leveraging support from United Nations Children's Fund (UNICEF), the initiative aims to develop an ecosystem of partners that can use science and technology-based solutions for developmental challenges. In June 2019, the program invested (undisclosed amount) in Mgicbox[163], an open-source digital platform, to help GoSL invest in free education. In the future, the DSTI plans to collaborate with a range of technologically innovative ventures that can improve women and children's lives.

CHALLENGES FACED BY ESOs IN SIERRA LEONE

- ***Lack of commitment and reluctance to newer ideas by entrepreneurs:*** Few support organisations present in the country highlighted the unwillingness of entrepreneurs to adopt more contemporary ideas. Many enterprises also shied away from formally registering their businesses due to the assumption that it will increase business costs. Few ESO's also stated that while many businesses show interest in receiving business development training, many do not complete the course, indicating a lack of commitment.

- ***Challenges in offering customised support:*** Given the vast differences in the entrepreneurial landscape in Freetown and other parts of the country, ESOs often find it challenging to consolidate solution packages. Many of the ESOs are present in Freetown, thus limiting their services to other less developed regions. Setting up offices in other regions is often considered unviable due to the limited infrastructure available in those regions.

- ***Lack of skilled and competent staff:*** Lack of qualified staff is often highlighted as a challenge for global support organisations in Sierra Leone operations. Since recruiting foreign nationals for small jobs is expensive, organisations either engage in their staff's skilling or recruit under-skilled staff affecting their business operations.

- ***Weak regulatory environment:*** Global organisations such as private foundations and incubators are affected by the absence of transparent regulations and lengthy government processes. Few ESOs also support enterprises with legal procedures and face severe challenges due to the prevalence of high level of corruption; this also dissuades and demotivates many support organisations. The uncertainty about the political environment also requires these organisations to have pre-planned strategies in place to be able to adapt to unpredictable changes quickly.

06

RECOMMENDATIONS ON INNOVATIVE IMPACT INVESTMENT MODELS FOR PROMOTING PRIVATE SECTOR IN SIERRA LEONE

Impact investment has a clear potential to harness the growth of the private sector in Sierra Leone. However, Sierra Leone will have to resolve a few underlining hindrances to reap its full potential, such as recognising 'impact investment' as a separate industry. This will facilitate the development of a niche market for such impact investments along with traditional investments classes. It will also encourage the demand side by promoting improved access to finance for impact-focused enterprises. It is fair to assume that impact investments in the initial years will be dominated by 'impact-first'[164] investors (as can also be witnessed from the finding of Chapter 3) instead of 'finance/return first'[165] impact investors. This ensures the availability of long-term patient capital at concessionary rates, in most cases combined with business development services. Although studies such as this (report) are aiming to address the perceived risk of investing in the fragile economy of Sierra Leone, few investors have adopted methodologies (such as guarantee risk insurance) for managing real risks[166]. While some of the investors have adopted a pivoted approach to funding the private sector in Sierra Leone, the strategies have their limitations that restrict their desired impact. Some of such challenges are discussed below:

- ***Concessional capital for Microfinance:*** Although few donors and DFIs support the MFI sector that offers microcredit to MSMEs in Sierra Leone, only a few indulge in the target's capacity building and financial literacy. Additionally, MFIs, in most cases, offer the same interest rates as commercial banks owing to high prime lending rates. These loans are rarely sustainable amongst the low-income population.

- ***Private Equity/Venture Capital (PEVC) Impact Capital:*** There is already a shortage of PEVC impact capital; the one fund (WAVF) that offered financial support to early-stage enterprises through this channel saw little success. One of the critical issues for this is the limited impact assessment mechanism adopted by impact investors, coupled with a lack of enterprise commitment. It has been observed that measurement of impact has only been restricted to a case-by-case basis. This makes it difficult for first-time investors to compare social, economic, and environmental impact. Having a consistent measurement mechanism can enable investors to plan and manage their portfolios for high impact sectors.

- ***Challenges Funds:*** Challenge funds are an essential tool in fragile economies like Sierra Leone to offer business and financial support to potential enterprises. These funds are uniquely different from grants with a discreet selection process and social venture capital with a network-based selection process. The open and advertised selection process of challenge funds allows transparency. However, it has been observed that the reach of many challenge funds in Sierra Leone is limited to Freetown and other urban cities. Many enterprises from regions other than these are either unaware or unable to participate in such events due to challenges such as the high cost of travel to the event, lack of capital to incur participation expenses, and low digital connectivity limiting online applications' submission.

Blended finance structures present significant opportunities, particularly in enhancing investments for underserved sectors and geographies. Such structures leverage catalytic capital from donors, government and philanthropists to mobilise commercial capital from private investors. There is a need to finance the private sector in rural areas or enterprises having operations in or focus areas as rural areas. This is to shift the current capital flow from the western province (mainly Freetown) to other regions to ensure equitable development. Technical assistance as an element of blended finance to help informal businesses in rural setup to gain business and technological know-how can help scale the private sector. High impact sectors such as health and education that currently witness little or scattered private sector participation can be streamlined with support from impact investors to maximise the country's developmental impact. On the other hand, sectors such as agriculture and financial services need patient capital to allow younger enterprises to pilot interventions and solutions. The use of blended finance instruments to promote sectors such as financial services that have cross interaction with almost all other sectors can have ripple effects and lead to overall private sector development.

Gender Lens Investing (GLI) presents a massive opportunity for potential investors in the country. As highlighted by the demand side assessment, of the total number of enterprises (24 out of 40) that raised funds (grant, debt, equity, TA), only 30% were owned or led by a female. This is because women face particular challenges in accessing finance, such as the need for more significant collateral for the loan of the same size. The gap in financial literacy is yet another reason for the women-owned business's inability to raise capital. The lack of dedicated GLI funds/programs in the country also adds to the challenges. Since most women-led enterprises are operating in the informal sector (70% in 2018), there is a need to offer TA facilities and use innovative financing mechanisms to serve the segment. Due to the high difference in access to resources between men and women-owned businesses, gender-disaggregated intervention should be developed. Investors should incorporate gender-based aspects in the design of the investment strategy to track and thus customise solutions.

With this context, the following are a few of the recommended models for investments in Sierra Leone.

Figure 35: Recommended Investment Models in Sierra Leone

RECOMMENDED MODELS

1	2	3
Result Based Financing	Non collateralized debt facility	Bridging the financing gap through Fintech models
Mechanism where a portion of funds are linked to completion of pre-specified outcome, or any other performance measure	Leveraging non collateralized debt instruments to target micro and small private enterprises	Leveraging fintech for credit assessment of MSME's in case of lack of financial records
Example: Impact bond launched by World Bank, UN Women Small Industrial Development Bank of India (SIDBI) to enable access to finance women entrepreneurs	Example: Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTM-SE) a collateral free loan facility for MSMES in India	Example: Nigerian-based Lidiya fintech platform that provides easy online application process for small and medium enterprises

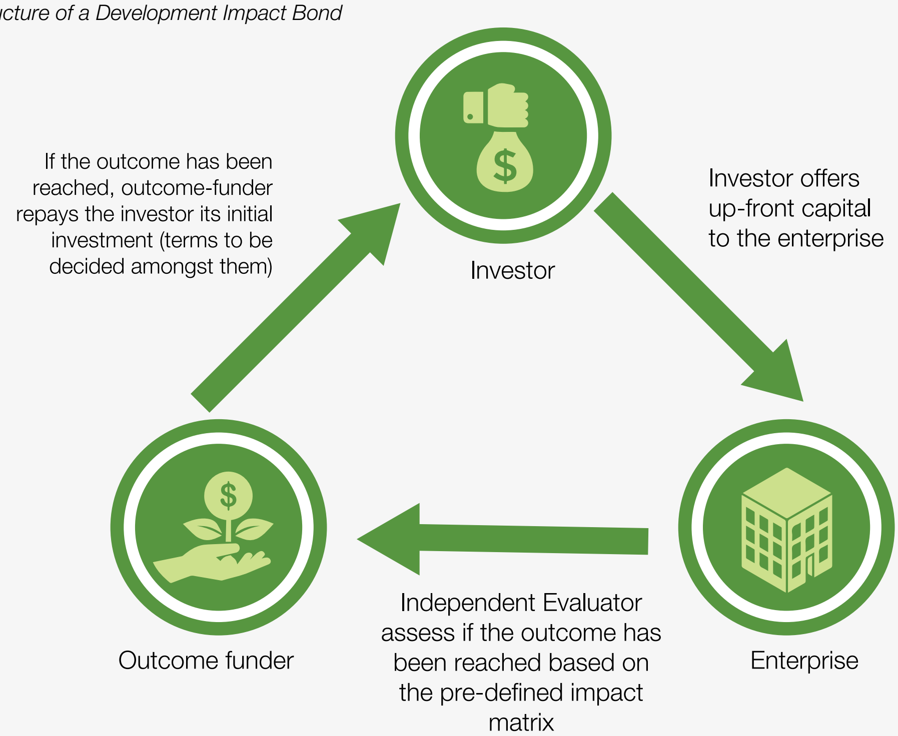
A. RESULT-BASED FINANCING

The financing method involves a mechanism where a portion of funds is linked to completing pre-specified outputs, outcome, or any other performance measure. The results or criteria are defined in advance, and funding is released only upon achievement of these results that are verified independently.

Implementation model: Outcome-Based financing or 'Pay-for-Performance' Model

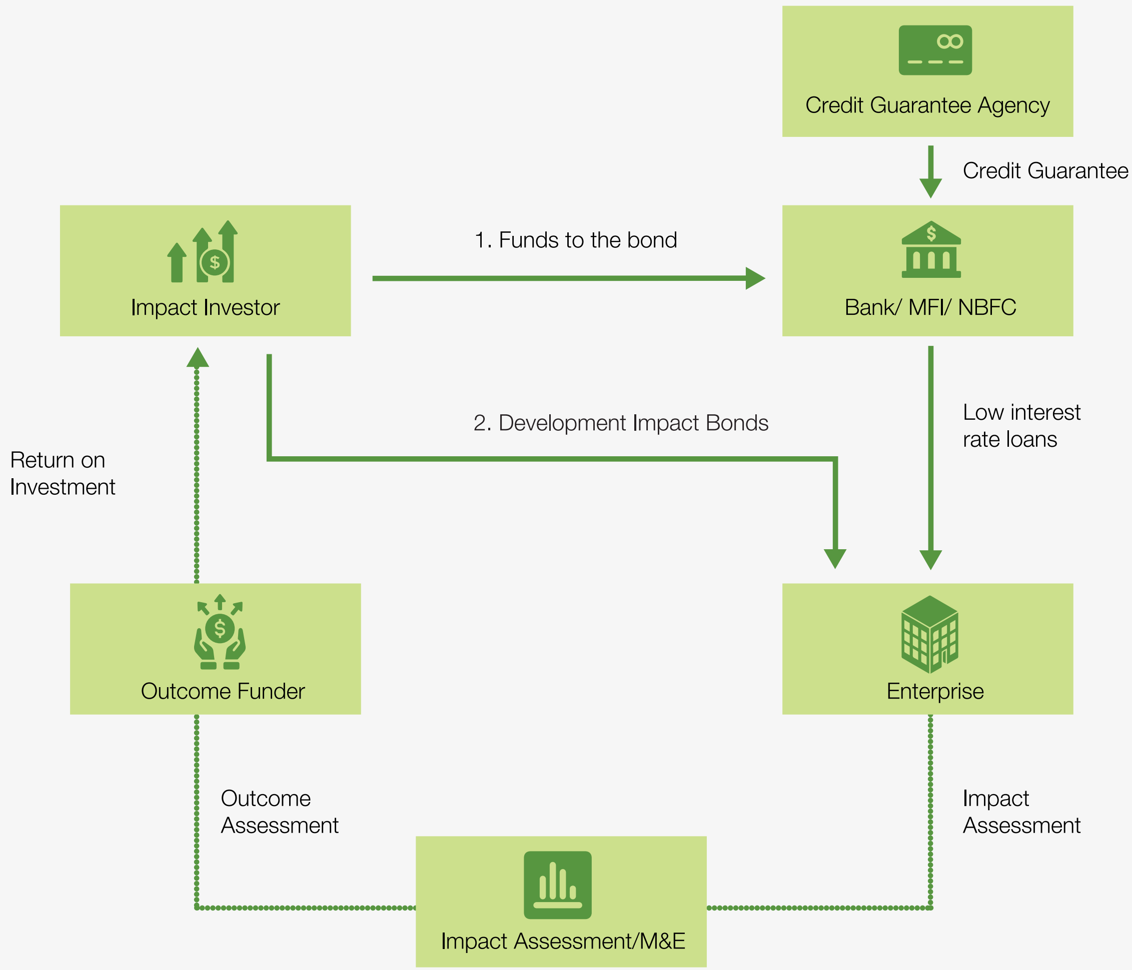
This mechanism uses tools such as impact bonds or social impact incentives wherein; the outcome funders only pay for successful results mapped against the defined impact matrix. Given the context of Sierra Leone's enterprise landscape, the perceived high-risk enterprises will be able to raise low-interest rates loans from investor through social impact bonds. The factor of return based on the outcome would also make these enterprises investable. Additionally, the high focus on outcomes enhances accountability and transparency and drives the focus on impact.

Figure 36: High-level structure of a Development Impact Bond



In this mechanism, the funder/commissioner (foundation/donor/philanthropist) enter into an agreement with the investor (provider of capital to enterprises) to pay for the pre-defined social outcomes. Such a mechanism also encourages the investor to develop proper tools to monitor output and outcome. This element has primarily been missing in most Sierra Leone's investments, thus leaving the enterprises with no liability thus risking default. If the outcomes are not fully achieved, outcome funders can choose to payback in proportion to the achieved results. These funders invest without the expectation of returns; thus, typically, the type of investors for such an arrangement are donors, foundations, or faith-based organisations[167]. In another mechanism, a financial Institution (Bank/NBFC) can raise multi-tranche development impact bond from impact investors on a half-yearly/yearly basis. Based on this funding, the Financial Institution (FI) will offer enterprises low-interest rates loans. The returns to the FI from the outcome payer are aligned to the outcomes of the financed enterprises. The bond can also be secured by a DFI that can offer a credit guarantee to the financial institution. In another mechanism, an outcome payer (philanthropic organisation, development agency or public funder) can also make direct investments into impact enterprise. The organisation pays a premium to the enterprise based on social contribution through its operations. These premiums are paid in parallel to the revenues generated raise credit directly through social impact bonds. The proposed model is described below:

Figure 37: Probable development impact model for Sierra Leone



A critical component in both the methods is the local advisory/ impact measurement/M&E evaluation team having a presence in Sierra Leone. Having a local agency is imperative to measure the outcomes against the defined impact matrix, considering the local context. Given the skills and competency challenges highlighted by multiple investors and enterprises in the country, it will be best to identify skills outside the country and enable them to reside in Sierra Leone until the operations last. The impact matrix for each enterprise could be different and could be established through discussions with all stakeholders.

Case Study 13: Example of social impact bonds for women-led enterprises, India

SOCIAL IMPACT BONDS TO SUPPORT THE 'MISSING MIDDLE' WOMEN-LED ENTERPRISES, INDIA

World Bank, UN Women, and Small Industrial Development Bank of India (SIDBI) launched a social impact bond to enable access to finance to individual women entrepreneurs. The Women Livelihoods Bonds (WLB) are planned to be unsecured, unlisted with a fixed coupon rate of 3% p.a., with 5-year tenure. These bonds will graduate lending to women in rural setup from 'group borrowing' to 'individual borrowing' and allow a shift from development assistance to market-financed programmes.

A few wealth management agencies such as Centrum, ASK, Avendus Capital, Ambit, Kotak Finance and Aditya Birla Capital have reached out to high-net-worth individuals and impact investors to raise funding for the livelihood bonds. Besides, Tata Communications, Tata Chemicals, Trent, the retail arm of Tata Group, and Voltas have also expressed their interest in investing.

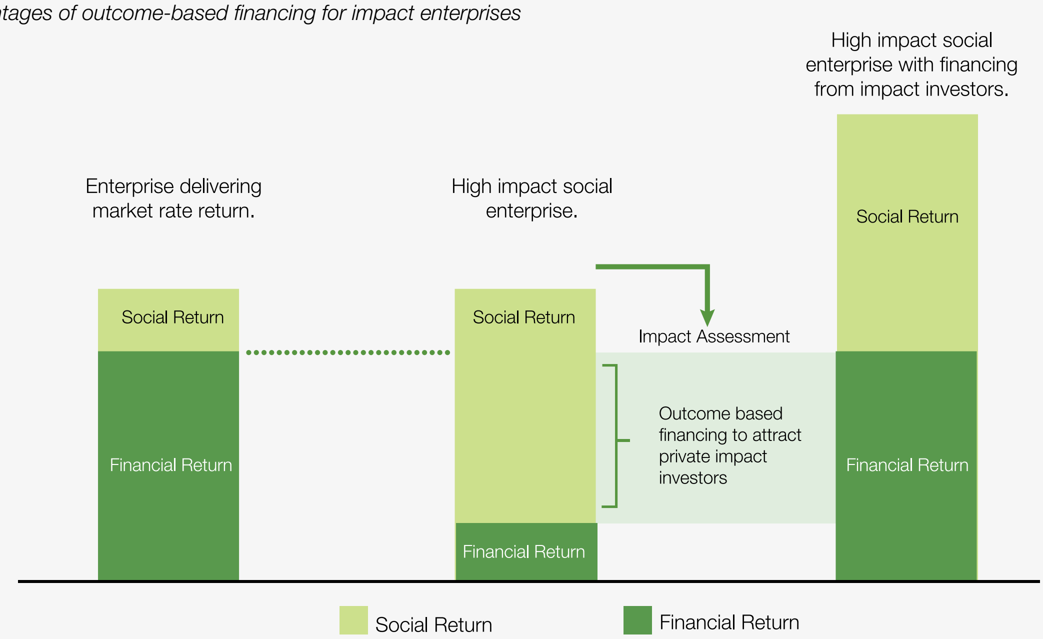
ADVANTAGE OF OUTCOME-BASED FINANCING:

1.Allowing proof of concept: Social impact based payments enable profitable impact enterprises to secure private investment, achieve further proof-of-concept, increase revenues, and lower per-unit cost. It also improves the organisational capacity of the enterprises allowing them to scale and achieve long-term financial sustainability. Additionally, the involvement of the investors in design allows otherwise absent rigour from supply-side actors pushing for greater financial and social returns.

2.Improve the effectiveness and efficacy of impact enterprise initiatives: The mechanism improves the effectiveness and efficacy of the social initiatives and programs by measuring their performance through reliable, pre-agreed upon metrics and quantitative parameters. Further, the structure also allows the participation of various service providers, thus allowing a holistic approach towards promoting private sector growth.

3.Attractive for investors looking for social and financial return: Although the scheme can be unattractive for a few investors, it shares the risk of social impact with them. It might be an attractive proposition for impact-focused investors, otherwise wary of investing in Sierra Leone, given the risks. Mapping funds against the performance also ensures greater accountability from the enterprises that otherwise is considered a critical challenge in the country, making it a more feasible proposition even for first-time investors.

Figure 38: Advantages of outcome-based financing for impact enterprises



LIMITATIONS OF OUTCOME-BASED FINANCING MODEL:

1. ***Impact measurement:*** The innovative mechanism relies heavily on the partners to develop a coherent impact assessment framework and tool; failure to do so will directly impact the investee.

2. ***Alignment of stakeholders' interest:*** Given the involvement of multiple stakeholders, all stakeholders' coordination and alignment of interests would be crucial. Impact investors interest in generating commercial returns and donors interest in social impact creation would also need alignment while designing the outcome matrix. Thus, the model would require transparent governance and process structures in case of disagreement or in case of need, of course, correction post actual implementation.

3. ***Time-consuming and costly process:*** Envisioning and designing outcome matrix and designing payment structures for all stakeholders under the DIB model is very time consuming and expensive; this could discourage stakeholders.

4. ***Administrative complexes:*** Navigating through the complexes of the mechanism, given the diversity of stakeholders, could lead to inefficiencies from lack of coordination and high administrative costs. Give the shortage of skilled workforce in Sierra Leone, this mechanism would require initial training and support from external agencies.

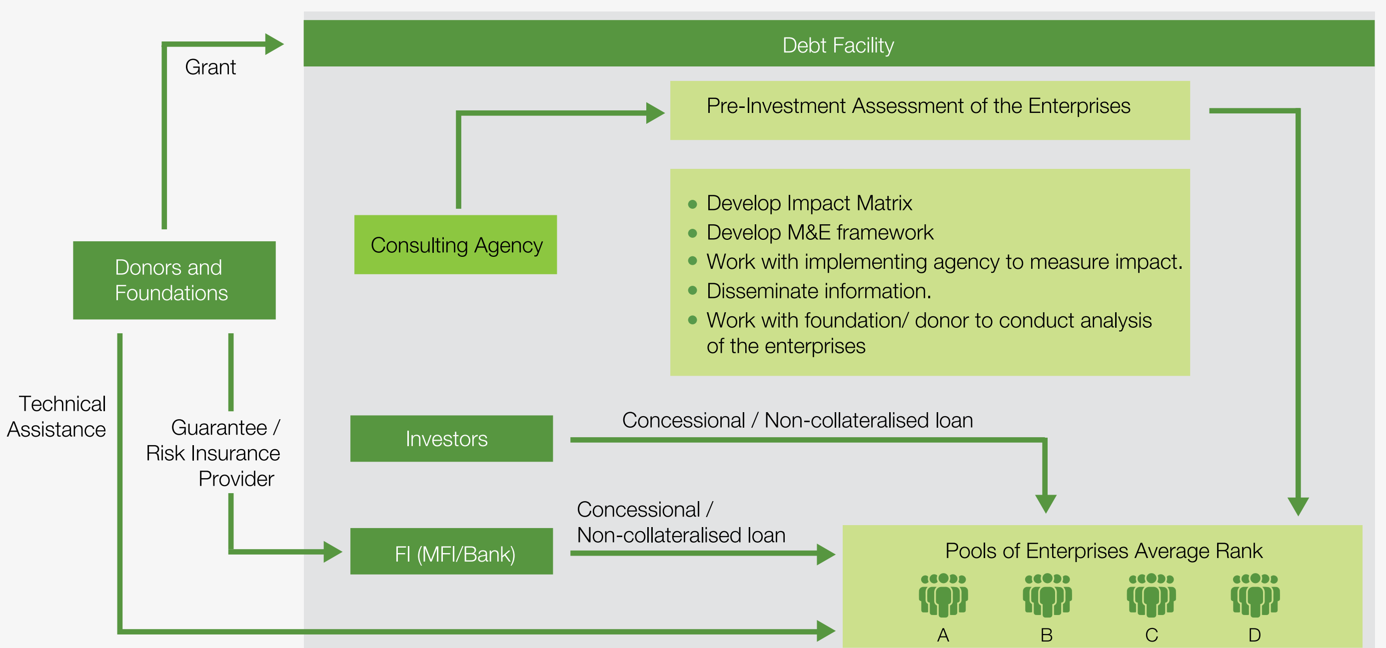
B. NON-COLLATERALISED DEBT FACILITY

Most of the banks in Sierra Leone prefer collateral lending, even for the SME sector. Collateral is used as a means of financial discipline mechanism on the entrepreneur to avoid default. Most enterprises cited this as a significant obstacle in accessing formal credit, especially from the banks that charge high-interest rates and require collateral. Non-collateralised debt instruments can be used in such cases to mainly target the micro and small private enterprises.

Implementation model for leveraging non-collateralised debt facility:

Given that offering unsecured loans is high risk in an already fragile state of Sierra Leone, funders could leverage innovative techniques such as group credit score mechanisms. Intellecap proposes a multi-stakeholder debt facility funded by donor/foundation organisation via grant funds. An investment consulting agency will manage the debt facility implementation and facilitation with support from investors. In this mechanism, to reduce the risk for the investors' enterprises with similar risk/credit profiles are pooled together. The enterprises' pools are categorised as A, B, C, or D with an overall rating based on their credit/risk profile developed after detailed financial assessments. Investors can hedge and manage their risk by investing in different categories/pools by enterprises. An outcome-based return matrix tracks the capital flow to the pools and monitors the impact from low return and high-risk enterprise pools, subsequently building a case for them. Learnings from such an arrangement can guide the future strategies of the investors. Pooling methods allow tailoring liabilities to the needs of different kinds of investors. For instance, foundations/donors can invest a higher proportion of their total investment into a high-risk, high-impact pool of enterprises, while private investor can invest a higher proportion of their investment into low-risk, high-impact enterprises. A guarantee or risk insurance by DFIs can secure the investors' risk to non-collateralised debt facility. The proposed model is described below:

Figure 39: Proposed model of a non-collateralised debt facility



One of the critical factors for such a model's success is the coordinated effort by multiple stakeholders. The model may require a DFI/Donor organisation to anchor the facility that will also be responsible for selecting the consulting agency. The consulting agency's role that performs the vital task of assessing the enterprises is also very critical to the model.

ADVANTAGE OF THE NON-COLLATERALISED DEBT FACILITY

***1. Accessibility for micro-enterprise*s**: The model will enhance credit accessibility by micro-enterprises that are more inclined to debt but lack necessarily collateral. These micro-enterprises will also be able to demonstrate their potential by being assessed for their financial viability. Many potential models, mainly from rural setup, miss the opportunity to participate in incubation, acceleration or grant-fund challenges owing to lack of formal credit assessment mechanism given their small size and operation. Credit assessment through this model can help these enterprises build and showcase their credibility, allowing them greater exposure.

2. Improved understanding of the enterprises' financial and non-financial needs: Conducting pre-investment enterprise assessment gives better and enhanced visibility about both the enterprises' financial and non-financial needs. Although the pooling mechanism helps investors hedge their risk, it will also help donors and foundations design their technical assistance and capacity building initiatives according to a specific pool's needs.

LIMITATIONS OF A NON-COLLATERALISED DEBT FACILITY

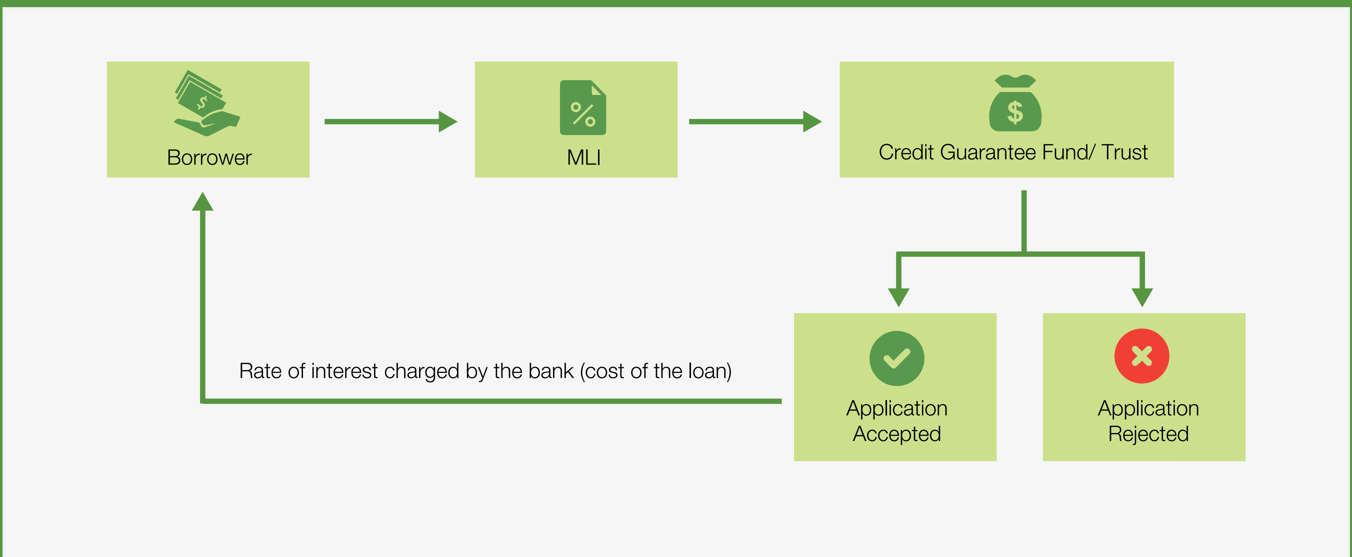
1. High dependence on a third party: To reduce the investors' risk, an initial assessment of the enterprises is inevitable. This causes high reliance on the third party, i.e., consulting firm. This could also lead to increased costs for the donors funding the facility. Also, the method is expected to take longer than usual time for pre-investment assessment.

2. Probability of high-interest rate: Given that the facility offers a collateral-free loan, the interest rates could be higher or equal to market rates to hedge the risk. While a concessional loan facility can be provided to associated banks, it is unlikely to reduce the rates to a sustainable level for micro-enterprises.

Case Study 14: Example of Non collateralized debt facility

THE CREDIT GUARANTEE FUND TRUST FOR MICRO AND SMALL ENTERPRISES (CGTMSE)

The Government of India and SIDBI established the CGTMSE in the year 2000-01. The CGTMSE provides guarantees to the banks and financial institutions to facilitate collateral-free loans to the MSME sector. The collateral-free loan is disbursed by the member lending institute (MLI). The MLIs until March 2018 extended loans amounting to almost USD 20 billion and approved almost USD 424.2 billion cumulative guarantees in this scheme. The risk was shared through a mechanism via guarantee fee and service fee.



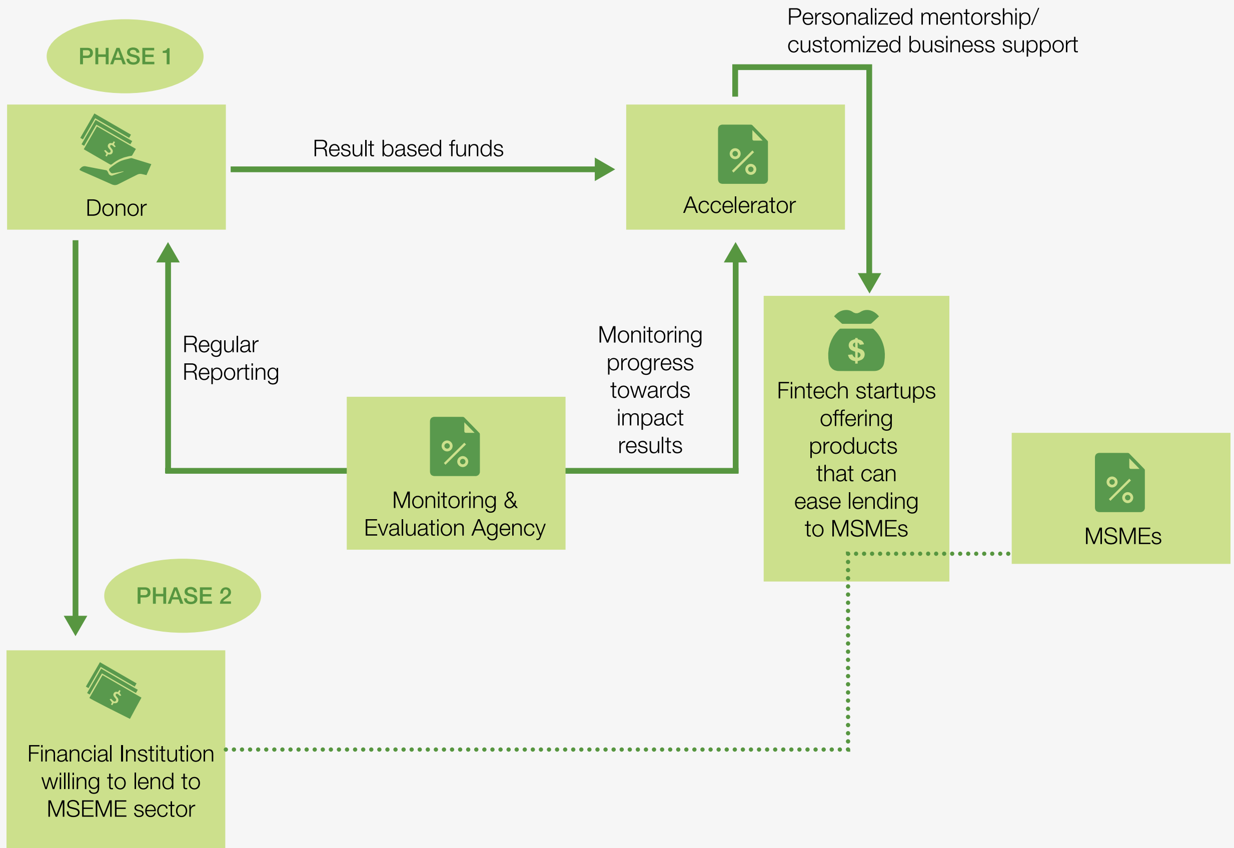
C. BRIDGING THE FINANCING GAP THROUGH FINTECH MODELS

Digital technologies can disrupt the traditional lending value chain and empower the small and medium enterprises both from the formal and informal sector. Although fintech is still a nascent sector in Sierra Leone, the newly formed Sierra Leone Fintech Association (as part of National Strategy for Financial Inclusion 2017 – 2020) can be leveraged to speed up the policy and regulatory approvals.

Implementation model to leverage fintech models to bridge the financing gap for the MSME sector:

The model will involve building the ecosystem to develop fintechs (Phase 1) and facilitating lending to the MSME sector through the fintechs (Phase 2). In phase 1, results-based or performance-based grants can be set up between a donor and ecosystem enablers. The partners will collectively design the grant framework to define the expected results relevant to both partners' priority areas and a timeframe to disburse the money and measure outputs. The ecosystem enabler (fintech accelerator) will encourage developing technology-based products that can ease lending to MSMEs. The process will also involve a third-party monitoring agency that will periodically check the progress of the impact results and maintain accountability for all the partners involved. In phase 2, the donor would offer funding to the partnered bank to on-lend to MSMEs as part of the pilot program using the products developed by fintechs. The donor can choose to subvent interest rates to allow banks to offer low-cost credit to MSMEs. The structure of this mechanism is described below:

Figure 40: Proposed model for fintech accelerator program



Given the context of the country, some of the instruments that Fintech can use to ease MSME lending are[168]:

Digital Merchant Cash Advance: Unsecured Credit: These tools can specifically help that section of the private sector (Micro and Small Enterprises) that is otherwise unable to secure credit from traditional sources. When lenders integrate their system with these tools, they have better visibility of the borrowers' credit flows. They will also be able to allow automatic deductions, reducing risks associated with defaults. The tool can enable businesses to set up dynamic repayment schedules based on their sales volumes. It would also allow the businesses to take small amounts of credit, which is otherwise difficult to access from traditional sources.

[169]***Factoring:*** Credit secured against invoices: Semi-formal businesses will be able to secure loans and a small amount of credit against their business invoices. It is, however, necessary for businesses to have a digital invoicing system to take advantage of this tool.

Platform or digital data-based lending: Digital presence has become a necessity given the global pandemic situation. While there are few enterprises in Sierra Leone with an online presence that too in the urban setups, such a tool will support and scale these enterprises. The tool uses digital data such as traction on the website/ mobile application to assess the enterprise's creditworthiness. Mechanisms such as peer to peer lending and small institutional investments can also participate in the program.

Case Study 15: Case Example of Factoring

LIDIYA, NIGERIAN FINTECH ENABLING SMALL ENTREPRENEURS TO ACCESS EASY CREDIT

Lidiya's proprietary fintech platform provides an easy online application process for small and medium enterprises that want to apply for small amount of funding support. It aims to support businesses that otherwise fail to secure credit from formal sources such as banks due to lack of collaterals and audited financial books. Lidiya provides small business entrepreneurs access to working capital that can be used for expansion of the business. Similar to many other online-loan servicing providers in various countries, Lidiya also uses credit scoring matrix algorithms and technology to estimate customers' credit worthiness. Based the unique credit score Lidiya provides loans ranging from USD150 to USD 50,000 to a business. The company disburses the loan to the borrower within 48 hours of the approval of the application. Since its launch in 2016, the enterprise has disbursed around 2000 business loans to MSMEs from sectors including farming, hospitality, logistics, retail, real estate, technology, and health.

Case Study 16: Case Example of digital data based lending

KABBAGE, USA

Kabbage offers small business loans to SMEs and uses online data to assess the creditworthiness of the borrower. Instead of using traditional business loan assessment mechanisms such as income statements, tax records, and collaterals, Kabbage uses business data from online accounts. These include credit card processing, Square, Intuit QuickBooks, Stripe, Shopify, UPS, Amazon, PayPal, and eBay.

ADVANTAGES OF FINTECH BASED FINANCING MODELS:

1.Easy availability of SME data: The use of technology for financial services allows access to detailed data for most enterprises. This mechanism is beneficial for enterprises that could not secure funding because of low profitability or limited information on their bona fides and business deals. Granular analysis of the enterprises' financial profiles provides insights into borrowers' profitability.

2. Data repository for the official purpose: The use of data for credit assessment will help the country create a digital storage of enterprise data. This data can be beneficial for the regulators developing sector policies. Such data can also be exceptionally useful for the banks that lend to small and medium enterprises by being able to create customised credit products given the profile of borrowers in a region.

3. Ability to offer innovative lending products: Based on detailed data analysis, lenders will be able to offer innovative customised financial products to the MSMEs segment. By harnessing data through a sound technology-based model, FIs can also consider other revenue channels and achieve significant cost savings.

LIMITATIONS OF FINTECH BASED FINANCING MODELS:

1. Limited financial and digital literacy: Limited financial and digital literacy of the MSMEs in Sierra Leone was observed through preliminary discussions and also highlighted by multiple investors. The use of fintech for financing businesses will be hampered due to this challenge.

2.Low digitisation: The country still has very limited internet and mobile penetration; this coupled with limited digital literacy, could hamper the potential of digital financing technologies in the country.

3. Legal and Regulatory concerns: The fintech ecosystem in Sierra Leone is still at a very nascent stage, creating additional risks for the investors, thus dissuading them from using such innovative mechanisms. From the users'/enterprise perspective, data use might create discriminatory outcomes in lending decisions and further biasing credit allocation away from disadvantaged groups. Additionally, with no laws around data privacy, the use of data generated by mobile phones might put the enterprises at the risk of data breach in case privacy protection is limited.

PRINCIPLES FOR IMPACT INVESTING IN SIERRA LEONE

The challenging environment is a significant hindrance to investments in fragile states like Sierra Leone. While investments in the private sector can spur economic and social growth leading to stability, however, if mismanaged, they can instead add to fragility.

DFIS:

• Be sensitive to the fragile region: Foreign investment institutions should analyse the country's conflict situation in detail and tweak the private investment terms accordingly. Adjusting the investment terms to the conflict scenario can ensure adequate returns.

• Be open to multiple collaborations and investing in on-ground monitoring: Supporting fragile states requires collaborating with the local government, organisations, private sector, and individuals.

• Risk-sharing propositions: New investors should partner with or design models that ensure adequate risk sharing. Investing in the private sector requires unique approaches

DONOR:

• Cognisance of the impact of their investments in a fragile state: Donors must be coherent and must assess how bilateral trade terms, investment patterns, migratory flows, and other factors may impact aid in the fragile economy. Local information and knowledge may have to be gathered from dispersed sources. Conditions may vary significantly between localities requiring programmes to be diverse and flexible.

• Selection of investment areas: Donors should focus on 'building up' initiatives thus focusing on sectors that need support in development rather than on 'building down' or 'gap-filling' strategies focused on humanitarian support.

• Avoiding factors that can nullify investment impacts: Donors should avoid partnering or getting involved with organisations that are not inclusive and can indicate 'taking sides' this will undermine the effectiveness of any programme and amplify cultural or regional differences.

PRIVATE IMPACT FUND MANAGERS:

• Adopt a diagnostic-based strategy: In relation to fragile states, there are no one-size-fits-all; thus, impact investors would have to customise solutions based on the need.

•Be patient with capital: The matrix and timeline for returns in a fragile economy need to be customised according to the country. The investor will not be able to reap the same returns in the same time and under the same terms as from a non-fragile country.

• Develop an understanding of the local context: Investors should either partner with a local organisation or have a team on the ground for a few months before investment. Having a ground team will help the investor develop a deeper understanding of the market, thus enabling tweaking of solutions to suit the environment.

GOVERNMENTS:

• Greater coherence between development policies and security: Governments of fragile states need to develop policies and structures, especially relating to private sector investments, acknowledging the country's security situation. A mismatch between the two aspects will result in good on-paper policies and challenges in implementation, as seen in Sierra Leone and other states part of the study. Such policies will also improve the recipient country's legitimacy and thus likely to see a positive response from global investors.

• Forging relevant partnerships: Given the complexity of a fragile state, joint efforts is critical. The government must work in tandem with various actors. Different actors might have a different role to play given the context and might have better outreach. During designing policies relating to the private sector and investment therein, the government should take opinions from representatives from different segments to ensure its applicability and relevance.

ANNEXURE

ANNEXURE I: LIST OF ESOs IN SIERRA LEONE

	Name of ESO	Type of organisation/services	Location	Sector	Stage of enterprise supported
1	Tony Elumelu Foundation	Foundation/NGO	Freetown	Multi-sector	
2	Innovation axis	Incubator/ Accelerator/ Business Development Support	Freetown	Multi-sector	Idea, Start up, Early Stage, Later Stage
3	Innovation SL	Incubator/ Accelerator/ Business Development Support/ Angel investor	Freetown	Multi-sector	Idea, Start up, Early Stage, Later Stage
4	Aurora Foundation	Incubator	Freetown	Talent, Artisans	Idea, Start up
5	Sensi Tech Hub	Incubator/ Accelerator/ Business Development Support	Freetown	Multi-sector	Idea, Start up, Early Stage
6	Freetown Media Centre	Incubator	Freetown	Multimedia	Idea
7	Directorate of Science, echnology & Innovation (DSTI)	Accelerator	Freetown	Multi-sector	Idea, Start up, Early Stage, Later Stage
8	Faster capital	Incubator			
9	Rogee	Incubator/ Accelerator/ Business Development Support	Freetown	Multi-sector	Idea, Start up, Early Stage, Later Stage
10	E4Impact		Freetown	Multi-sector	Idea, Start up, Early Stage, Later Stage
11	The African Foundation for Development in Sierra Leone (AFFORD-SL)	Business Development Support	Freetown		Idea, Start up, Early Stage, Later Stage
12	Sl Agcelerator	Accelerator	Freetown	Agri processing	Growth stage
13	Creative Minds	co-working space	Freetown	Education, Technical Assistance Services, ICT	Start up, Early Stage
14	Young Africa Leaders Initiative (YALI) Network	Capacity development	Western Area Rural District, near Freetown	Multi-sector	Idea, Start up
15	GIZ Sierra Leone	Bilateral agency/donor, capacity development	NA	Multi-sector	Idea, Start up, Early Stage, Growth Stage
16	FCDO	Bilateral agency/donor, capacity development	Freetown	Multi-sector	Early-stage

ANNEXURE I: LIST OF ESOs IN SIERRA LEONE

	Name of ESO	Type of organisation/services	Location	Sector	Stage of enterprise supported
17	Life by Design	Capacity development	Freetown	Multi-sector	Idea, Start up
18	Sierra Leone Small & Medium Enterprises Development Agency (SMEDA)	Government agency, capacity development, policy support	Freetown	Multi-sector	Start up, Early Stage, Later Stage, Growth Stage, Mature Stage
19	The Office of Administrator & Registrar-General (OARG)	Government agency, capacity development, policy support	Freetown	Multi-sector	Idea, Start up, Early Stage, Later Stage, Growth Stage, Mature Stage
20	The Corporate Affairs Commission (CAC)	Government agency, capacity development, policy support	Freetown	Multi-sector	Start up, Early Stage, Later Stage, Growth Stage, Mature Stage
21	The Bank of Sierra Leone	Government agency, capacity development, policy support	Freetown	Multi-sector	Start up, Early Stage, Later Stage, Growth Stage, Mature Stage
22	National Revenue Authority (NRA)	Government agency, capacity development, policy support	Freetown	Multi-sector	NA
23	Sierra Leone Chamber of Commerce, Industry & Agriculture	Business development and network	Freetown	Multi-sector	NA
24	Freetown City Council	Government agency, capacity development, policy support	Freetown	Multi-sector	NA
25	Ecobank Finance	Government agency	Freetown	Multi-sector	NA

ANNEXURE II: TAX STRUCTURES FOR THE INVESTORS

TAX	RATE
Corporation Tax	30%
Goods and Services Tax	15%
Pay as You Earn (PAYE), a personal income tax on individuals, partnerships, etc., on income-generating activities. For permanent and temporary residents, the following tax rates apply:	
Chargeable income	Below LE 6,000,001 per annum: Nil
	LE 6,000,001 to LE 12,000,000 per annum: 15%
	LE 12,000,001 to LE 18,000,000 per annum: 20%
	LE 18,000,001 to LE 24,000,000 per annum: 30%
	Over LE 24,000,001 per annum: 35%
	For employment income, there is a threshold on non-taxable allowance of LE 6,000,000 per annum or LE 500,000 per month
For individuals and partners in a partnership with a turnover or income up to LE 350 million and classified under the 'Small and Micro Taxpayer Regime'	Below LE 10,000,000: Nil
	LE 10,000,001 to LE 20,000,000: LE 100,000 plus 2% of the amount above
	LE 10,000,000
	LE 20,000,001 to LE 100,000,000: LE 300,000 plus 4% of the amount above LE 20,000,000
	LE 100,000,001 to LE 200,000,000: LE 3,500,000 plus 5% of the amount above LE 100,000,000
	LE 200,000,000 to LE 350,000,000: LE 8,500,000 plus 6% of the amount above LE 200,000,000
Payroll Tax – foreign companies pay a tax for all non-citizens employed by them	ECOWAS nationals: LE 500,000 per employee per annum
	Non-ECOWAS nationals: LE 3,000,000 per employee per annum
Stamp Duty	1% to 12.5% depending on value
Personal Income Tax on individuals, partnerships, etc. on income-generating activities	
Withholding tax for residents	
Payments to contractors	5%
Dividends	10%
Interest	15%
Rent	10%
Royalties	25%
Pensions and annuities	15%
Natural resource payments	25%
Real property	10%
Withholding tax for non-residents	
Employment income	25%
Payments to contractors	10%
Dividends	10%
Interest	15%
Rents and royalties	25%

ANNEXURE II: TAX STRUCTURES FOR THE INVESTORS

TAX	RATE
Pensions and annuities	25%
Natural resource payments	25%
Payments to or applications for the benefit of non-resident beneficiaries	25%

ANNEXURE III: PRIMARY INTERVIEW LIST

S. No	Country	Organisation	Organisation Type
1	Sierra Leone	Acumen	Investor
2	Sierra Leone	Agro Fish Farm	Impact Enterprise
3	Sierra Leone	Aurora Foundation	ESO
4	Sierra Leone	Balmed	Impact Enterprise
5	Sierra Leone	Bempa Plastic	Impact Enterprise
6	Sierra Leone	Bennimix	Impact Enterprise
7	Sierra Leone	Canaan Farm	Impact Enterprise
8	Sierra Leone	Codraid	Investor
9	Sierra Leone	E4Impact	ESO
10	Sierra Leone	EasySolar	Impact Enterprise
11	Sierra Leone	EcoBank	ESO
12	Sierra Leone	EnviroTech	Impact Enterprise
13	Sierra Leone	Estu Enterprises	Impact Enterprise
14	Sierra Leone	Ex. World vision (SL) now Co-Creation Hub, Nigeria	ESO
15	Sierra Leone	Farm Invest	Impact Enterprise
16	Sierra Leone	Fashion 1	Impact Enterprise
17	Sierra Leone	Fresh Salone Ltd	Impact Enterprise
18	Sierra Leone	Gaia Fund	Investor
19	Sierra Leone	Gen-SL	ESO (Incubator)
20	Sierra Leone	Gill & Co	Impact Enterprise
21	Sierra Leone	GoMarkit	Impact Enterprise
22	Sierra Leone	Innovation Axis	ESO (Incubator)
23	Sierra Leone	Innovation SL	Investor/ ESO (Incubator)
24	Sierra Leone	Invest Salone	Investor
25	Sierra Leone	Lambano	Impact Enterprise
26	Sierra Leone	Light Salone	Impact Enterprise
27	Sierra Leone	Manocap	Investor
28	Sierra Leone	miKashBoks (iDT labs)	Impact Enterprise
29	Sierra Leone	Munafa (MFI)	Impact Enterprise
30	Sierra Leone	Nianda Agriculture and Trading Company	Impact Enterprise
31	Sierra Leone	Ori from Sierra Leone	Impact Enterprise
32	Sierra Leone	Premier Enviro Solutions Ltd	Impact Enterprise
33	Sierra Leone	RAMSYL Smart Farm	Impact Enterprise
34	Sierra Leone	Regrow, USAID	Investor/ ESO (Incubator)
35	Sierra Leone	SEforAll	Ecosystem Enabler
36	Sierra Leone	Sensi Impact Fund	Investor/ ESO (Incubator)
37	Sierra Leone	Shae Recycling	Impact Enterprise
38	Sierra Leone	St. Conrad Co. Ltd	Impact Enterprise
39	Sierra Leone	Trust Alliance SL	ESO
40	Sierra Leone	Unimaxsl	Impact Enterprise

ANNEXURE III: PRIMARY INTERVIEW LIST

S. No	Country	Organisation	Organisation Type
41	Sierra Leone	Wasteconnect Company	Impact Enterprise
42	Sierra Leone	West Africa Rice Company (WARC)	Impact Enterprise
43	Sierra Leone	West Africa Venture Fund	Investor
44	Sierra Leone	Yembeads	Impact Enterprise
45	Sierra Leone	Diaspora Focus	Impact Enterprise
46	Sierra Leone	Kabia Farm (SAKATA)	Impact Enterprise
47	Sierra Leone	Antonett Enterprise	Impact Enterprise
48	Sierra Leone	Center for Community Empowerment and Transformation	Impact Enterprise
49	Sierra Leone	Women Target Famers Association	Impact Enterprise
50	Sierra Leone	Sierra Leone WWomen'sFarmers Forum	Impact Enterprise
51	Sierra Leone	Ngawoh e gbormuma Agricultural Group	Impact Enterprise
52	Sierra Leone	M. J. Motel	Impact Enterprise
53	Sierra Leone	LLeone'sPlastics (Le Plastics-Bomeh)	Impact Enterprise
54	Sierra Leone	LAPO MFI	Impact Enterprise
55	Sierra Leone	Soba Wan Pot and Coal Pot	Impact Enterprise
56	Sierra Leone	Koromasilia WWomen'sAgricultural Group	Impact Enterprise
57	Sierra Leone	MMensor'sWeaver Arts&Crafts Enterprises	Impact Enterprise
58	Sierra Leone	Easy Solar Agent , Kambia Dist	Impact Enterprise
59	Sierra Leone	Growth Center	Impact Enterprise

FOOTNOTES CHAPTERS 1 TO 6

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[57] *The strength of legal rights index measures the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders and thus facilitate lending*

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