Friday@Noon

A weekly African news briefing for the Southeast Asian community

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African Union

- **Africa:** Africa's geriatric autocrats run the danger of being removed violently, which is not in Africa's best interests!

  The prolonged economic crisis caused by low oil prices is making many of Africa's geriatric autocrats look vulnerable. There is now a growing possibility that outbursts of frustration over corruption, the lack of jobs and the loss of subsidies will escalate into attempts to topple the dinosaur regimes. Yet without democratic mechanisms to manage discontent, there is an increased risk of a violent reaction. Instability is already on the rise in several countries. If one of the regimes is toppled, the shockwaves will be felt across central Africa. Some of the dinosaurs will retire quietly, while ensuring that their successors safeguard the position of their families, e.g. Angola. A new generation of leaders would successfully diversify their economies, ensure a level playing field for foreign businesses and guarantee transparency. But the aftermath of a violent political change is sure to be tumultuous – and oil and gas investors will face a number of contractual and security threats if central Africa's leaders are swept aside. Newly-installed governments would be under pressure to crack down on corruption and find quick-fixes for their countries' social and economic distress. The opening of a power vacuum could trigger conflict in some cases, as it did in Libya after 2011. For more information, read here.

- *CAS View:* The creation of power vacuums is never a good thing. We have seen that in both Libya and Iraq. However, it seems that without an "incentive" of some sort, geriatric autocrats are not that keen to leave the political scene. In Zimbabwe, we have Robert Mugabe, who is on record stating that he will remain in office until his death. In several other countries, we have leaders who have been in office for 30 years and longer. This seldom creates a good scenario. Africa does not need violent transfers of power, as it already has a perception of being politically volatile. Attempts by institutions such as the Mo Ibrahim Foundation to entice political leaders to leave when they should, are not all that successful. As Mo Ibrahim himself said, leaders believe they can do better by staying in power. Until such a time that Africa develops a culture of good governance, the above situation will remain a threat in Africa.

- **Africa:** Crowdfunding is becoming a legitimate source of funding for Africa's entrepreneurs.

  Crowdfunding has been gaining traction in Africa over the past decade, but is still limited compared to other regions. In 2015, the African crowdfunding market amounted to about $70 million, accounting for less than 1% of the global crowdfunding market. Crowdfunding platforms include websites such as Afrikstart (based in London), Thundafund (South Africa) or M-Changa (Kenya). Crowdfunding offers 3 opportunities for entrepreneurs in Africa. First, crowdfunding creates more avenues for businesses to access capital. Second, as a purely digital mechanism, African crowdfunding can leverage the increased use of mobile networks to transact business. Third, crowdfunding platforms subsidise the costs of marketing and promotion by typically allowing entrepreneurs to use the platform for free. One common criticism is that digital platforms tend to elevate wealthier, tech-savvy entrepreneurs at the expense of businesspeople who truly cannot access traditional financing. Also, because it relies on social connections, crowdfunding rewards individuals with larger, denser networks. Investors and African entrepreneurs who use crowdfunding platforms are operating in an unregulated space, which means an absence of adequate investor protection. The lack of clarity about the legal status of African crowdfunding organizations risks causing a chilling effect for international investors. Some countries are beginning to take steps to properly regulate the sector. For more information, read here.

- *CAS View:* Africa's entrepreneurs are known to be short of capital. Financing is a struggle and has been preventing many of them to scale their businesses meaningfully. Crowdfunding provides a credible alternative to banks, private equity funds and venture capitalists. From the article, it is clear that there is a lot of potential, given the current low levels of penetration. This has also been the case for private equity funding. This platform places more control in the hands of the entrepreneurs, and potentially has a much greater group of potential investors to tap into. It is also important that African governments sort out the regulatory environment to remove any trace of uncertainty. Uncertainty in the field of investment is always a major source of concern and will deter potential investors from participating in these crowdfunding projects.

- **Africa:** ECOWAS stood up to the Gambian dictator, Yahya Jammeh, to force him to step down as president after the elections when he refused to do so. Hopefully this forcefulness will become the norm for regional and African institutions.

  Regional intervention to safeguard democratic election results in The Gambia represents a paradigm shift in African governance. Swift, decisive action by ECOWAS got Gambian dictator Yahya Jammeh to give up power to the legitimately elected President Adama Barrow. This paradigm shift means that it is no longer dictatorship as usual in Africa. There is new respect for people's democratic vote and ECOWAS has set a new benchmark for African governance. SADC must learn from and emulate the authority and decisiveness of ECOWAS. The lesson from The Gambia is that it takes some external persuasion to remove a dictator from power and allow a democratically elected successor to take over. ECOWAS was supported by the UN and by the AU, giving legitimacy to the intervention. The situation was very different in 2008, when Zimbabwean opposition leader Morgan Tsvangirai won 54% of the vote against Robert Mugabe's 27%. Then-president of SA Thabo Mbeki stood on the sidelines, in the belief that it would be better for SA if Mugabe's Zanu PF stayed in power despite the electoral defeat. SA is currently doing and saying nothing. They will only take action when the situation in Zimbabwe implodes and threatens the stability of the region; by then it may simply be too late. For more information, read here.

- *CAS View:* It has been high time that African institutions stand up to transgressions by incumbents that have been voted out of power, but that refuse to vacate their positions. ECOWAS has set an example. The AU had the opportunity less that 18 months ago when it contemplated getting involved in Burundi. It threatened to intervene, but backed off when Pierre Nkurunziza made a counter-threat to respond with military power. This did not do its reputation any good. The SADC also chose to do nothing in 2008 with the Zimbabwe situation, when Robert Mugabe refused to stand down. Hopefully we will in future see more aggressive actions by Africa's institutions to address illegal situations of the nature we saw in Gambia. This will be good for Africa's reputation and enhance its image as a safe haven for foreign investments.

- **Africa:** The Internet has the potential to allow Africa to leapfrog many of the older technologies.

  Africa leaping the landline phase for mobile phones is well known. Africa, however, remains quite unconnected without mobile phones. Less than 20% of Africa's population is connected to the internet. Greater internet access will change the way business and life is conducted. Examples: 1) Education: The Internet presents an opportunity for teachers and students to leapfrog textbooks and go straight to tablets and Kindles. 2) Health: Doctors traveling outside Lagos to serve remote communities, gripe at the inability to break the digital divide with some patients. 3) Finance and business: The benefits of the internet are threefold. First, more must be done for those in remote (and urban) areas to gain access to a greater suite of financial services. Second, retailers would like to see a bump on their bottom line. E-commerce is a great way to achieve that. Third, business and finance have become online activities globally. Africa must get up to speed to compete on the international stage. The favoured countries for private investors in the past 5 years are Kenya, South Africa, and Nigeria with their high mobile and internet penetration rates, tech hub presence, and general attractiveness. Other opportunities include Ghana, Uganda, Senegal, Cote d'Ivoire and Tanzania. For more information, read here.

- *CAS View:* Africa is indeed in the position of being able to leapfrog various traditional technologies to more modern and better systems. Due to the absence of electrical transmission lines in Africa and the cost involved, we are seeing a leapfrog to a solar business model. Fintech has the potential to disintermediate banks in the rural areas of many countries in Africa, due to the absence of infrastructure. Mobile phones have greater potential in Africa, given the absence of landlines. The greater availability of internet access has the potential to radically transform various sectors in society, as indicated by the article. This trend will not be restricted to the countries mentioned, but will in all probability mushroom into most of Africa's countries, maybe not in the short term, but definitely in the medium term. As bandwidth becomes cheaper and more available, the likelihood of this happening increases. We are already seeing content providers in Africa (such as Naspers) developing joint ventures with telcos in Africa.

West Africa

- **Senegal:** Senegal has the potential to use its oil and gas discoveries of last year to diversify its economy in a meaningful way.

  The discovery of oil and gas reserves off the coast of Senegal in January 2016 set it on course to become Africa's newest energy producer. Senegal hopes the revenues will significantly improve the living standards of the 46.7% of the population living under the poverty line. Countries like Nigeria, Angola and DRC have fallen victim to poor economic management, as well as increases in poverty and unemployment. There are reasons to be optimistic. Firstly, Senegal only discovered hydrocarbons after other sectors had developed. This will help guard against the collapse of the economy around a single sector. The government has also not significantly altered how much it plans to spend on infrastructure or development projects, suggesting it does not intend to increase its deficit in anticipation of a large increase in the budget in the next 5 to 10 years. However, the biggest threat to the stable, transparent development of oil and gas resources in Senegal is corruption, but a strong civil society and years of effective democratic governance can prevent corruption becoming the scourge it has in other resource-rich countries. The government has also published all its mining and petroleum contracts, making it easy to assess whether oil and gas agreements are fair for Senegal. For more information, read here.

- *CAS View:* Macky Sall must address the ghost of corruption in Senegal to lay to rest any possibility of impropriety in the gas and oil sector. Given the nature of the sector, this will be no easy task. It also seems that Africa is a wee bit more inclined towards this "Western phenomenon." Publishing contracts is an important first step to ensure good governance and transparency. What is going to be even more important, is that Senegal must at all costs avoid the mistakes of tying itself into the position Nigeria and Angola, to name but 2 countries, find themselves in. Focusing the economy on the exports of raw material is easy and leads to short-term gains that can be quite attractive. It does, however, also make it vulnerable to the volatility of commodity price cycles. Senegal must add value to the products by moving up and down the industry value chain, and use the proceeds to diversify its economy as much as possible. The last thing Senegal needs is to find itself in a similar position than Nigeria and Angola. With the good leadership of Macky Sall, hopefully this will not happen.

- **Nigeria:** Nigeria aims to sell of state-owned assets to prop up its economy.

Nigeria plans to generate as much as $16.4 billion through asset sales in the next 4 years to reduce the burden on the public budget. This will help to tackle inefficiencies and stem "corruption in public enterprises," according to a document outlining Nigeria's plans for economic recovery from 2017 to 2020. Nigeria estimates its economy contracted 1.5% in 2016, partly because of a decline in the price and output of oil. Buhari proposed a 20% increase in this year's budget to stimulate the economy and help its GDP expand by an average of 4.7% annually over 4 years and reach 7% in 2020. One avenue could be to reduce government stakes in oil JV's from around 55% to 40% or 45% - that alone can generate over $10 billion. Non-oil assets like concession airports are a more difficult sale because they would involve a lot of transactions. The government targets oil production of 2.5 million barrels a day by 2020 to boost export earnings. For more information, read here.

- *CAS View:* It seems that the state-owned enterprise sector in Africa is a hot-bed of corruption and inefficiencies. South Africa is another country where this phenomenon is quite visible. That Nigeria is forced to sell off state assets, is a pity as it is the poor economic situation it finds itself in which has necessitated this strategy. One wonders whether they would have resorted to this strategy had the country not found itself in the predicament it currently is in. Surely a better approach would have been to ensure that these assets are run efficiently and honestly in the first place! Is it going to require a similar catastrophe to force South Africa's decision-makers to sell off its SOEs to entities that can run them efficiently and honestly? South Africa has already researched their SOE sector, and recommendations have been made to sell-off quite a few of them. It is doubtful whether this would ever happen, as the labour unions will not allow it. Given their political clout, they will be able to successfully block the adoption of this strategy. The current government does not seem to have the will to ensure efficiency and honesty in the SOE sector. The deputy president of the country led a delegation to China a while ago to see how SOEs should be run. As I stated quite a long time ago, he could have saved time and money and stopped in Singapore to see the world class benchmark provided by Singapore's SOEs.

Southern Africa

- **South Africa:** The article provides advice for start-up founders aiming to sell off their companies.

In January 2017, Marc Sternberg – founder of an independent ATM supplier in SA, Spark ATM Systems – sold his company to Cardtronics. The number of ATMs in SA is expected to grow by 4% between 2015 and 2021. Sternberg believes that successful acquisitions ultimately come down to company culture and whether both parties share similar work environments, ethics, values and goals. Sternberg's experience has provided him with some important lessons about conducting successful acquisitions. Seek out legal representation and hire the right team of consultants. Be patient and take time to get to know the interested party and what it is they are looking for. It is also important that the business continues to run smoothly during this period and that the entrepreneur can rely on a team to manage operations while he/she focuses on negotiating the acquisition. Entrepreneurs must do their own research on the acquiring company – with more knowledge the entrepreneur can better protect their interests while negotiating the deal. Speak to some of their big customers, as well as former shareholders of companies they had acquired to see how they conducted themselves during and after an acquisition. Entrepreneurs should not underestimate their negotiating position – no matter how small their company may be. For more information, read here.

- *CAS View:* This article addresses issues that entrepreneurs need to be on the lookout for when they sell their startups to big players. The article is self-explanatory, and addresses the importance of intangible factors such as culture, patience, and trust, as well as the importance of doing a thorough due diligence. Prospective entrepreneurs and start-up founders would do well to read the advice of Marc Sternberg.