OCTOBER 2023


# TUNISIA VC UNCONFERENCE FEEDBACK

DIGITAL COLLECTIVE AFRICA

Digital Collective Africa

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# DIGITAL COLLECTIVE AFRICA (DCA)

Digital Collective Africa is a collective of African investors, incubators, accelerators, and founders who aim to support early-stage startups. We work together on projects to limit friction and offer more transparency within the ecosystems. We believe in the power of the collective to leverage individuals' talents.

https://www.digitalcollective.africa/

# TUNIS ATTENDEES

38+ attendees across 4 continents Africa, Europe, Asia and America were present, representing over 14 countries over the 2 days

## INVESTORS

Orange Ventures
Knife Capital
Norrsken22
Kalys Ventures
LoftyInc Capital Management
Daal VC
FMO
Launch Africa
yVentures
Invenfin
Octerra Capital
Nexterra Capital

## ACCELERATORS

Flat6Labs
FSAT Labs
Startupbootcamp
Agoranov

## ENABLERS

- GIZ, Smart Capital, Expertise France, GSMA, Sendemo, Ignite.E, Dream VC

DIGITAL COLLECTIVE AFRICA

# A PLAYBOOK FOR INVESTING AND SCALING IN FRANCOPHONE AFRICA

### Session Led by Abderrahmane Chaoui, Sendemo

The session discusses the need for a Playbook For Investing And Scaling In Francophone Africa. The idea of the collaborative workshop is to discuss and brainstorm on the way to produce the playbook. The level of ambition for a guidebook on entrepreneurship and financing innovation in Francophone regions of Africa is discussed, along with the importance of understanding common ground and specificities within the different regions represented. The challenges and similarities of collaboration across borders are also highlighted. There is an emphasis on creating cross-border collaboration within the African ecosystem and convincing foreign investors about Africa's investability through showcasing innovation, education, culture, political stability, startup environment, and exitability as key factors.

# THE CHALLENGES TO BUILD A PLAYBOOK IN INVESTING IN FRANCOPHONE AFRICA

## A Demographical Challenge

- The challenge to define Francophone Africa is mainly due to determining population size due to various languages and dialects. West Africa alone has around 14 languages spoken across ten or eleven countries, and the total linguistic diversity in the region, including North and Central Africa, reaches 150 languages. The misconception that certain countries are predominantly French-speaking is challenged with examples from Mali and Senegal, where French is spoken by a small percentage of the population.
- The importance of considering cultural and linguistic differences in discussions about the startup ecosystem and entrepreneurship in these countries is underscored in this session, with the definition agreed upon at the Dakar Unconference, focusing on French-speaking West African countries such as Senegal, Mali, Côte d'Ivoire, Benin, Togo, Burkina Faso, Niger, and Guinea Conakry, excluding Mauritania.

## A Socio-Economical Challenge

- The consideration of a common currency, such as the CFA franc, across these countries should also be considered. The potential benefits for startups, particularly in fintech and mobile apps, are present. However, despite the common currency, there are still complexities and frictions in cross-border transactions that need careful consideration and identification for effective guidance.

DIGITAL COLLECTIVE AFRICA

# SETTING UP THE PLAYBOOK METHODOLOGY GUIDELINES

## The Need to Determine the Level of Ambition for the Guidebook

- It is highly important to understand the specific characteristics of each market in the chosen region and deciding on the shared level of insight applicable to the selected countries. The aim is to create a practical and useful resource for both founders looking to scale in the region and investors unfamiliar with it.
- It is a challenge to categorize regions based on language or cultural factors and suggests a more factual and geographically defined approach. The idea is to focus on regional or subregional definitions to facilitate cross-border integration and make it easier for investors looking across borders.
- Some participants argue for a country-specific approach, citing examples of successful deals across multiple African countries. The discussion encouraged a shift towards clarifying the scope and ambition of the guidebook, considering practical content for entrepreneurs and investors in the specified region.

## Fostering Cross-Border Collaboration within the Ecosystem

- The primary goal in building the playbook is to foster cross-border collaboration within the ecosystem. The intricacies and complexities arising from specific geographies and cultures is high. While the intention is to create a playbook facilitating collaboration, it has been suggested to prioritize an understanding of the challenges and similarities within the ecosystem. The proposal is to temporarily set aside regional distinctions and concentrate on content, aiming to identify commonalities that can lead to an honest conversation about the requirements for scaling across borders.

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# THE PLAYBOOK METHODOLOGY OVERVIEW

### The Next Steps in Creating the Playbook

- The playbook will take the orientation of a one-stop resource for investors and entrepreneurs interested in various African countries. The initial focus can be on five, eleven, or 21 countries, with the ultimate goal of covering the entire African continent, excluding the already well-covered countries like Nigeria and Egypt.
- The methodology seeks collaboration and assistance from participants to gather diverse use cases, both in investment and startup scaling, to deepen the research. Examples such as GomyCode, Yassir, and Dash showcase different approaches and outcomes in scaling across West Africa. It is highly important to understand the reasons behind successes and failures, questioning the relevance of the Silicon Valley-inspired VC approach in the West Africa region and whether adaptation is needed.

## KEY ACTION ITEMS

- Create a workgroup.
- Gather use cases.
- Conduct interviews, which include success stories: This will help fill any gaps in knowledge and provide a deeper understanding of the market dynamics and regulatory aspects.
- Highlight challenges and red flags: The guidebook should provide insights into potential red flags and cautionary tales, allowing investors and entrepreneurs to make informed decisions.
- Provide resources and contacts: The guidebook should include a list of resources and contacts that can help investors and entrepreneurs navigate the ecosystem.
- Dissemination strategy and considering multiple languages.

# OPPORTUNITIES AND CHALLENGES OF INVESTING IN THE MIDDLE EAST

### Session Led by Andre Ayotte, Modus VC and Farah Hijjawi (Daal VC)

Investment in the Middle East region and Gulf Corporation Council (GCC) countries continues to be a dynamic topic of interest as investors outside the Middle East and GCC regions seek to better understand the region's investment landscape, particularly from a fundraising perspective. In his opening remarks, facilitator Andre Ayotte highlighted the historical connections the Middle East has with Africa:

**"Last year 2022, there's about $80 billion in FDI from the region. I'm sure it's much bigger than that. And around 15 billion was directed to Africa, which is substantial for the continent, with UAE being kind of like the major contributor towards the continent. And I think it's important to note that if you look at Jeddah, for example, in Saudi, there's a strong history with Africa for trading. For centuries, Oman was very important. In East Africa." (Andre Ayotte, Modus VC)**

# UNDERSTANDING INVESTMENT IN THE MIDDLE EAST AND GCC REGIONS

For investors from outside the Middle East and GCC regions, it is crucial to understand how the investment landscape in the region works, for it is congruent on time invested in building strong personal relationships through building trust with investors and family offices within the regions.

- Sovereign Wealth Funds (SWF) are a primary investment vehicle through which investors can unlock and access funding if they have the right relationships with key stakeholders such as family offices.
- The Middle East and GCC regions understand that Africa is a different market. When considering funding Africa-focused VCs and providing funding, SWFs always ask what their financial return would be on such investments.
- SWFs, while largely non-tech focused or sector agnostic, are overcoming their aversion to investing in the tech sector and becoming aware of the benefits of investing in the tech ecosystem and how they can attract tech talent to their region.

# HISTORICAL CONNECTION

Africa and the Middle East and GCC regions have a strong historical connection, with historical traces of the Omani Empire across East Africa from the 17th to 19th centuries.

# MIDDLE EAST AND GCC REGION OPENING UP TO TECHNOLOGY

There are trillions of dollars in sovereign wealth across the region, however these sovereign wealth funds and family offices tend to ask, "What's in it for my country, for my people" before investing.

Previously, the region has been tech-averse, and is now opening up to the many possibilities of technologies and embracing tech-driven solutions as they enter an era of great tech competition as the region undergoes a digital transformation. Dubai in particular, due to its cosmopolitan make-up, is more open to embracing technology.

Given this, Africa-focused VCs need to show that they are in alignment with the investors, SWFs or family offices' relevant visions and goals for their region and show how African startups can crack the Middle East and GCC markets, incorporate the markets and show a financial return.

Startups are even expected to be able to develop a market to attract tech talent to the region.

# BUILDING A STRONG ECOSYSTEM

Ecosystem building in the Middle East and GCC region is particularly important as ecosystem builders focus on building relationships for future funds and ecosystem development.

# THE VALUE OF ECOSYSTEM BUILDING

The value of ecosystem building is immense, as it is a timeless, proven, long-term strategy that accomplishes the following outcomes:

- Drives tangible business impact
- Unlocks significant new streams of revenue from outside a business' core operations and secondary opportunities
- Delivers long term outperformance and value creation
- Acquire new customers across new segments through improved customer value proposition
- Enhance customer loyalty
- Enrich customer insights through generating rich customer data
- Personal relationships help to build, strengthen and broaden an ecosystem through trust

In the Middle East and GCC region, all of the above and more are applicable, especially as many SWF investors are reluctant to invest in technology, especially frontier technology, and they see VC as an asset class. However, they will invest in real estate, oil and gas. There is a lot of money in GCC region, and five families control the wealth. The resistance to investing in technology is now changing as the Middle East and GCC region opens up to the world and the region embrace technology, especially in the UAE and Qatar.

# ECOSYSTEM BUILDING IN MIDDLE EAST AND GCC REGION

The Middle East and GCC region, particularly UAE is looking at building a VC ecosystem within the region.

There is a great deal of money allocated for the growth of VC as an asset class as the activities of venture building, accelerator and ecosystem building, espeically with regards to innovation hubs, ties in with the SWF investors' long-term vision for economic improvement within their region.

However there are hardly any Middle East and GCC based ecosystem players apart from Modus VC  looking at building and enhancing the African ecosystem.

# THE VALUE OF INVESTOR SHOWCASES

Investor showcases are a wonderful way to showcase projects worth billions of dollars, and attract investment.

In the tech ecosystem, we are able to show prospective investors the value of investing in Africa's tech startups through showcasing their innovative products and solutions as disruptive startups prove that they drive the innovation economy forward.

# KEY ACTION ITEMS

- VCs must understand who the Family Offices and key investors and stakeholders are in the Middle East and GCC region.
- Build soft skills and build personal, face-to-face relationships with these individuals and perform on delivery as trust is important and introductions are gold, creating credibility within the network.
- Understand that the Middle East and GCC region is becoming tech-centric, but at a slow pace with a 30 - 50 year vision.
- Ensure the best of the best from Africa's tech startups can solve the Middle East and GCC problems, and this will create an interest in Africa's tech startup ecosystem.
- Understand how Sharia compliance affects the fintech sector.
- Understand the power of branding and storytelling is important when pitching investment opportunities within the region.

# STATE OF INVESTMENTS IN AI AND DEEP TECH - TRENDS AND OPPORTUNITIES AFTER INSTADEEP

## Session Led by Walid Bellagha, Endeavor Tunisia and Jean-Michel Dalle, Agoranov

AI investment in Africa is growing rapidly, with AI and Deep Tech hubs springing up across the continent, particularly in Tunisia. There is an AI revolution occurring across the world, not unlike the digital revolution.

Tunisia's success story with InstaDeep, a startup that delivers AI-powered decision-making systems for the Enterprise is a testament to the potential of AI hubs in Africa to have global impact, providing solutions to unique problems.

However, both Endeavor Tunisia's Walid Bellagha and Agoranov's Jean-Michel Dalle who facilitated this session, compared the race for control over AI to a nuclear bomb competition between countries like China and the US.

There was consensus on how AI is disrupting markets and creating efficient models that will help people do their work better. There was also discussions around the question of access to talent, resources and skills to make a big impact globally.

**"This level of efficiency is going to bring a lot of opportunities, and that's global. So there is an urgency because today is the opportunity for us to really very quickly start thinking about how we can leverage this opportunity in a small window of time to make a big impact locally, globally." (Walid Bellagha, Endeavor Tunisia)**

# QUESTIONS WE NEED TO ASK ABOUT AI TRENDS

**Important Questions We Need To Be Asking About AI Trends**

There are many emerging trends in AI and Deep Tech. We need to be able think ahead, identify them, and know how to act upon the opportunities they present, as AI is described as a wave we need to surf.

With the deep interest people are showing in the AI boom, there are some questions we need to ask ourselves:

- Why is AI going to be important in the next few years?
- Recall how the Internet boom disrupted businesses and ask ourselves what would we do differently with regards to the opportunities with AI?
- How can we leverage the AI opportunity within Africa in a small window of time so we can make a big impact both locally and globally?
- How big will the market be?
- What is the level of disruption AI will have on the world, the market and in people's lives economically, socially and philosophically?
- What are the long-lasting effects of investing in AI within certain areas?
- What is the impact of AI on global strategies and within local ecosystems?
- How does implementing AI strategies help us solve African problems and stay ahead of the game?
- How do we surf the AI wave and seize opportunities into the market?
- What is the role of African diaspora entrepreneurs operating within AI fields?
- How is AI impacting every field and changing the way we do things?
- How do AI models reflect Africa's cultural diversity and meet African needs?
- What is the talent factor within the AI revolution?
- What skills does Africa need to cultivate and include within its educational curriculum in order to leapfrog the AI revolution and address the continent's brain drain?

# THE RACE FOR AI CONTROL

**The Race For AI Control**

These are important questions for us to ask as there is an AI war going on, notably between USA and China, as whoever has control of this innovative, disruptive technology will have the ability to dominate the world and control how the world operates.

**The UAE Wants To Control The Global South Through AI**

Similarly, the UAE is looking at getting control of AI technology because they want to be the leading tech supplier to the Global South and to disrupt emerging AI superpowers. The UAE is on a drive through unchartered waters to become the first "AI nation" through a focus on AI infrastructure development, with cutting-edge Generative AI technology leading the way.

This shows us that there is an **"important defense and strategic and power and control aspect in AI and there is also an economic innovation aspect which sometimes are in the same place." (Walid Bellagha, Endeavor Tunisia).**

# AI TRENDS WE NEED TO LOOK OUT FOR

The speed at which AI is evolving and being integrated into our day-to-day lives is mind boggling, and if we are not careful, and don't know what to look out for, it can become overwhelming. We need to be able to identify current and upcoming AI trends so we know how to capitalize on them and make them work for us and our businesses.

Investors will be takin a closer look at AI startups, as there will be more AI startups springing up.

Some of the AI trends we need to look out for going into 2024 are:
services reach resolutions faster and more effectively, and one area where this is seen is through the use of conversational AI chatbots.

Some of the AI trends we need to look out for going into 2024 are:

- **Generative AI** trends in the form of ChatGPT, chatbots and image generators made waves this year. However, Generative AI is looking to take a leap into the next level from 2024 as they become more deeply embedded in creative platforms, productivity tools and new applications such as generative design tools and voice synthesizers.

- **Ethical AI** trends will see a demand for AI ethicists within the workplace to ensure that is fairness, accountability, transparency, privacy and safety concerning the use of AI systems.

- **Customer Service AI** trends will help customer services reach resolutions faster and more effectively, and one area where this is seen is through the use of conversational AI chatbots.

- **Augmented Working** trends will see people use AI tools to become more effective in their work and workplaces.

- **AI-Augmented Apps** trends will see generative AI functions being built into productivity tools and more to drive effective strategies for enhancing next-generation customer experience.

- **Low-Code and No-Code Software Engineering** trends will give people with good ideas the capabilities to bring their problem solving solutions to life.

- AI Jobs trends will see new opportunities open up within the market for new roles such as roles such as prompt engineers, AI managers, AI project managers, AI trainers, and AI ethicists.

- Quantum AI trends will see quantum computing processes being applied to AI applications that will have an impact on complex neural networks and algorithms.

- Upskilling People For AI Revolution trends will see forward looking employers upskilling their workforce through carefully thought out and planned AI integration into education and training programs.

- AI Legislation trends will see legislators stepping up their AI game to deal with deepfakes.

# AI OPPORTUNITIES FOR INVESTORS

Technological innovation is an ever-evolving field, and disruptive processes are always emerging on the scene.

**“Every ten or 20 years, there's a new thing coming that you don't know whether it's going to change everything that is being done.” (Jean-Michelle Dalle, Agoranov)**

The various iterations of AI innovations that are springing up across the tech landscape present many opportunities for investors - we just need to know what we are looking for and if it fits with our investing goals.

Opportunities within the AI space can be defined by breaking down AI into the following three sections:

- Core AI (long-term investing)
- Application AI (medium-term investing)
- Industry AI (short-term / immediate investing)

## Two Types of AI Applications

**Industrial Innovation AI** creates new markets, new businesses and so on.

**Incremental AI** changes the way we run a factory, the way we manage a fleet of vehicles, the way we do our research, market research or anything else.

# AI RISKS WE NEED TO TAKE INTO ACCOUNT

Just as with any other investing opportunities, we have to assess the risks associated with AI.

One of the biggest risks within the AI industry, the facilitators pointed out is that people are no longer programming where AI is going and this is something to bear in mind as the bias built in these learning programs need to be done in such a way that it is easy to correct in the early stages, otherwise, it becomes more difficult to correct at a later stage.

This means the correct resources, programs and support organizations need to be in place when investing in Africa's AI capabilities.

Other risks include, but are not limited to the following:

- Lack of AI transparency and explainability
- Job losses due to AI automation
- Social manipulation through AI algorithms
- Social surveillance using AI technology
- Lack of data privacy
- Bias such as racial profiling and gender discrimination due to AI
- Socioeconomic inequality as a result of AI-powered recruiting
- Weakened ethics and goodwill
- Weaponized military warfare through AI-fuelled autonomous weapons
- Financial crises due to AI algorithms
- Loss of human influence and empathy
- Self-aware, super-intelligent AI

These risks make the need for responsible AI best practices necessary.

# KEY ACTION ITEMS

During the session, speakers highlighted that there is an urgency for Africa to prioritize independent development of AI despite limited government support.

- Encourage African startups to focus on AI and leverage its potential to solve local, regional, continental and global problems.
- Build the necessary infrastructure to support AI development and ensure access to computing power, such as semiconductor and quantum computing.
- Shift the risk appetite of investors to back talent and support startups that are using AI to address industry-specific challenges.
- Advocate for AI to be recognized as a priority sector in donor programs and projects, and secure funding for AI-focused initiatives.
- Promote prompt engineering as a skill that can be taught at the primary school level to prepare the younger generation for the AI-driven future.
- Invest in programs that support semiconductor and quantum computing research and education, and push for government involvement in acquiring advanced computing technologies.
- Encourage African entrepreneurs to collaborate with global partners, leveraging their expertise and networks to drive success.
- Foster an ecosystem that supports AI startups and creates opportunities for knowledge sharing and collaboration.
- Emphasize the importance of data privacy and ethics in AI development to ensure fair and equitable outcomes.
- Create awareness and educate the public about AI, its potential benefits, and its implications for various industries and sectors.

# AI FOR RETURN VS AI FOR GOOD? THE INVESTOR RESPONSIBILITY AND HOW TO NAVIGATE THE ENVIRONMENT AND DUE DILIGENCE

### Session Led by Jordy Kiange Beni , Octerra Capital

This session discusses the importance of due diligence and the basics of it in various aspects such as legal, financials, regulation, ethics, and transparency in AI. It emphasizes the need for investors to go back to the basics and compile a checklist for due diligence, especially for this specific sector. The session also highlights the significance of providing guidance to entrepreneurs on structuring their companies and raising funds. Additionally, it suggests that investors should focus on investor readiness and provide support to startups through tools and resources. Ethics is mentioned as an important factor in evaluating founders' reputation and trustworthiness.

# AI FOR RETURN VS AL FOR GOOD? THE INVESTOR RESPONSIBILITY

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## The Importance of Due Diligence in the Investment Process

- There has been a recent positive shift in the industry's attitude towards thorough examination of potential investments. The role of founders in shaping this approach and advocating for a return to the basics of due diligence is key to advancing the topic. The key elements to shape and develop the due diligence include:
    - Legal considerations, such as attention to documentation and contracts,
    - Financial scrutiny,
    - Regulatory awareness,
    - Reputation checks, and evaluating the founder's team.
- It is of significant importance to support startups with tools and investor readiness, aligning with ethical considerations and maintaining transparency in interactions with founders. Additionally, in regards to feedback provision, revisiting the evaluation criteria for startups, and considerations regarding governance structures, including the preference for direct equity over safe notes is highly important.

## The Concerns about Governance Practices in African Startups

- In the discussion, the group addressed concerns about governance practices in African startups, particularly at the growth stage. The challenge identified was that it is difficult to rectify bad governance practices or a lack of cultural acceptance of governance at the growth stage.

# AI FOR RETURN VS AI FOR GOOD? THE INVESTOR RESPONSIBILITY

## The Concerns about Governance Practices in African Startups (cont.)

- The conflict arises when startups, transitioning from early to later stages, are suddenly expected to adopt governance practices, such as forming a board and implementing efficient decision-making.
- The proposed solution involved focusing on education, primarily directed at the Entrepreneurial Support Organizations (ESOs) who work closely with investors. The idea is to instill in startups, from the beginning, an understanding that governance is essential and expected by investors. This education should start early in incubators and accelerators, preparing startups for the governance standards that will be expected as they grow.
- To make this approach effective, it was suggested that both ESOs and investors should publicly emphasize the importance of governance and incorporate it into key performance indicators (KPIs). Investors can use their influence to create incentives for startups to prioritize governance, making it a condition for funding or graduation to the next stage.
- The overall strategy involves creating a collaborative effort where ESOs provide guidance and incentives, while investors set clear expectations and use their influence to drive adherence to governance standards.
- The market is currently favorable to investors, creating a unique opportunity to enforce demand and set terms. The conversation revolves around the challenges of encouraging good governance practices in startups, particularly the fear among investors that speaking out about governance standards may make them appear less founder-friendly, causing startups to avoid them.
- The proposal suggests a collective effort among investors to publicly commit to a pledge or tiered governance structure, outlining specific criteria that startups should meet before receiving funding. This approach aims to overcome the reluctance of individual investors to be the first mover in advocating for governance standards.

# AI FOR RETURN VS AL FOR GOOD? THE INVESTOR RESPONSIBILITY

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## The `Need for a Governance Toolkit

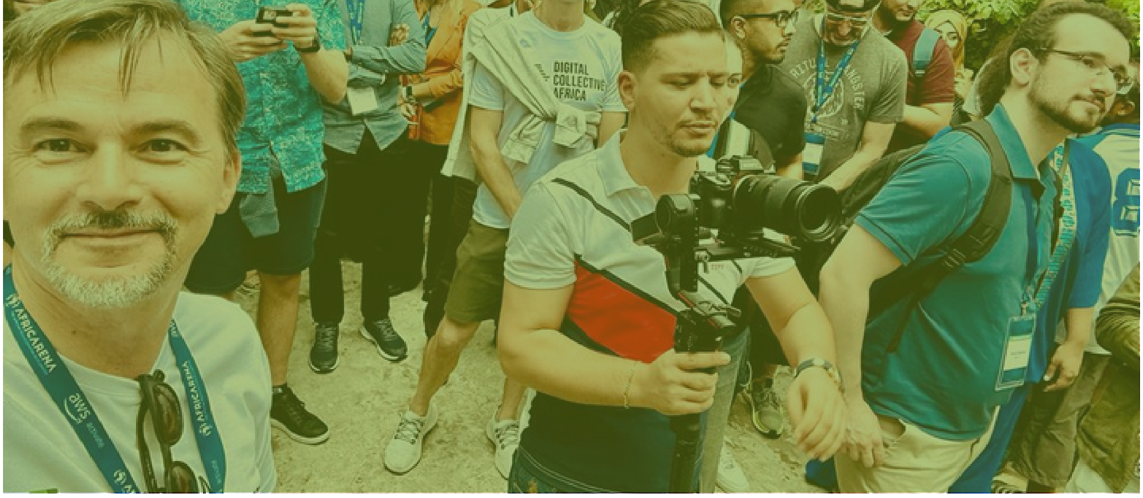
A toolkit that defines optimal governance practices and acknowledges that the expectations may vary at different stages of a startup's growth is highly recommended. The toolkit is seen as a guide to help startups understand the importance of governance and gradually implement best practices as they evolve. The challenge highlighted is convincing startups, especially those in their early stages, about the significance of having a board and engaging with it effectively.

# KEY ACTION ITEMS

- Due Diligence Checklist: There is an ongoing workgroup led by Damilola Thompson (Diligence Africa) working on the DD Checklist 2.0. The action item is for more people from the group to join the workgroup, provide feedback on the checklist.
- Governance Toolkit: There is a need to create a toolkit for each stage of a company based on the number of employees. The toolkit should include resources and guidance tailored to each stage. The action item is to have two or three volunteers co-lead the effort in compiling the toolkit, with a deadline of having a document ready for dissemination by December 2023.
- Gender Diversity Pledge: There is an ongoing effort to create a pledge related to gender diversity in investments. The action item is to draft the pledge and gather feedback from participants, with the goal of having a version ready for dissemination and signing by early December 2023.


# GOVERNANCE STANDARDS FOR INVESTORS TO STRENGTHEN “DUE DILIGENCE”

The Digital Collective Africa (DCA) is working on standardizing governance standards for investors in startups to enhance due diligence. A new due diligence checklist is being developed with the help of Dami Thompson (Diligence Africa), who wants input from investors. A good governance toolkit is also being created to establish non-negotiable standards for founders and investors post-investment. The importance of balancing traction with sustainability and governance is emphasized. It is suggested to have discussions and break into groups to further develop these deliverables and ensure engagement from the group.



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## Standardizing governance standards for investors and startups

There is a strong need in the ecosystem to further work to standardize governance standards for investors in startups, focusing on cost investment and enhancing due diligence standards. The Digital Collective Africa (DCA) is working on two key initiatives: Due Diligence Check 2.0 and a Good Governance Toolkit.

- **Due Diligence Check 2.0**: Led by Dami Thompson, the DCA is collaborating on a new due diligence checklist. The text encourages group members to provide inputs and mentions the intention to share the state of the art of this checklist in the group. Thompson is invited to present the first package at the December Unconference in Cape Town.

- **Good Governance Toolkit**: The idea is to create a document of reference for founders and investors to agree upon post-investment governance standards that are non-negotiable. The text refers to discussions within investor groups, highlighting extremes such as daily access to startup bank accounts. The author plans to share the governance toolkit with the group, proposing a discussion on expectations and considering breaking into two groups for a 30-minute discussion during the conference.

**The imbalance in the industry's focus on fundraising over sustainability and governance is high. Finding a middle ground in developing governance standards and seeking engagement and input from the group is the goal for a complete governance toolkit.**

## The Importance of an Outward-Facing Disaster Recovery Plan

It is not only important to have an inward-facing plan, including a governance toolkit, but also an outward-facing disaster recovery plan. The emphasis is on the need to be prepared for disasters or accidents that can happen in business.

The discussion is prompted by the recent case of Dash, a company that raised $86 million but faced allegations of misappropriation of funds and other issues, leading to its closure. The importance of having a disaster recovery plan that not only addresses internal governance but also considers external factors such as public relations is key.

Furthermore, there are several challenges in executing standards, as incentives for investors may be misaligned. The example of Dash illustrates that investors, having already invested in a company, might have conflicting incentives regarding disclosure of issues and are inclined to push for further funding rounds or exit strategies instead of acknowledging failures.

While standardizing due diligence practices and governance sheets are valuable tools, there is a need for a broader discussion on the attitude element in venture capital. The focus should extend beyond the procedural aspects and include an analysis of the integrity and character of leaders and founders during the due diligence process or pitching rounds.

**Dash, the Ghanaian fintech company with a mission to connect mobile money wallets and bank accounts across Africa, confirmed that they are shutting down operations. Upon internal audits of the company's account, there was a shortfall of at least $25 million that was unaccounted for. With a reported burn rate of $500,000 per month and no revenue, Dash's primary problem appeared to be its high overhead, as it had operations across five countries.**

# MAINTAINING GOOD GOVERNANCE PRACTICES - THE CHALLENGES

- There are multiple challenges venture capitalists (VCs) and founders face in maintaining good governance practices, emphasising the difficulty of enforcing such practices when lucrative investment opportunities are at stake.
- Despite the discourse on good governance and lessons learned from past incidents (e.g., FTX and Terabos), the allure of high-return deals often leads investors to compromise standards. An attitude adjustment on both the VC and founder sides without creating confrontations is needed to make further progress in good governance.

- The consequences of enforcing governance are consequent, noting that interventions such as replacing a CEO or implementing significant management changes may sour relationships and harm reputations. There is a delicate balance between being VC-friendly or startup-friendly, and the need for VCs to maintain expectations due to the responsibility associated with handling investors' money is more than relevant in these times.

- Due diligence goes beyond paperwork, including validating claims through interactions with other businesses, employees, and former employees. There is a need for a long-term outlook in the ecosystem, and the potential negative impact on Africa-focused investments if risky incidents are not handled effectively. Unfortunately, we must acknowledge the prevailing perception of Africa as a risky investment destination and the importance of proactive strategies, rather than reactive damage control, in dealing with governance challenges.

The concept of being founder-friendly doesn't necessarily mean being less strict but revolves around how investors and founders interact and set expectations. Maintaining a positive attitude and establishing mutual trust are crucial in the due diligence process, and it’s all maintained by good governance. The notion of founder-friendly has evolved and become corrupted, moving from favorable investment terms to reduced due diligence and governance. The concern is that if governance expectations are not introduced early in programs or accelerators, founders may perceive governance as a punishment rather than a necessary practice.

# GOVERNANCE STANDARDS FOR INVESTORS TO STRENGTHEN "DUE DILIGENCE"

## KEY ACTION ITEMS

- Standardizing Governance Standards: The transcript mentions the need for more work to standardize governance standards for investors investing in startups. This is seen as a way to enhance due diligence standards and ensure proper governance in investments.
- Good Governance Toolkit: The idea of creating a document of reference for founders and investors to agree upon the standards of governance to be implemented post-investment is discussed. The aim is to prevent issues like misappropriation of funds and ensure non-negotiable governance standards.
- Pledge on Governance: The concept of creating a pledge on governance is proposed. This would involve investors publicly committing to implementing and upholding governance standards. The pledge is seen as a way to create accountability and encourage widespread adoption of governance practices in the industry.
- Founder-Friendly Approach: The concept of being founder-friendly is discussed, with the emphasis on setting the right expectations and understanding the potential of the founders. It is suggested that being founder-friendly does not mean compromising on governance, but rather establishing a relationship based on trust and collaboration.
- Influencing Accelerators: The idea of influencing accelerators to incorporate governance training into their curriculum is mentioned. It is suggested that VCs can work with accelerators to ensure that founders are aware of governance expectations and the importance of implementing proper governance practices.

# THANK YOU