AVCA Member Profile: **Control Risks**

Control Risks is a global risk and strategic consulting firm with more than 30 years experience in Africa. With a network of consultants in every African country, Control Risks operates from three local offices in Lagos, Nairobi and Johannesburg.

George Nicholls is Control Risks' Senior Managing Director, Southern Africa and leads the company's strategy for the Southern African Development Community (SADC) region.

AVCA talks with George about managing risk in Africa in the midst of the continent's growth and increasing private equity (PE) investment.

Q: What kind of services do PE clients want from Control Risks in Africa?

A: Like any other investor, PE firms draw on most of the services that Control Risks offer throughout the investment lifecycle. For example, before making an investment in a new country or sector, a PE investor may request that we provide them with a thematic risk assessment looking at key integrity, regulatory, political or operational issues.

Once a term-sheet is signed, we could be engaged to undertake intelligence-led integrity due diligence, often supplemented with other services like financial integrity reviews and cyber due diligence. When the deal is done, we could work with portfolio companies as we would any other corporate. Across emerging markets that could mean: creating organisational resilience (whether from a security perspective or wider business continuity and crisis management support); developing and implementing robust controls and insights around anti-bribery, anti-corruption and related integrity risks; investigating instances of fraud or other malpractice; and supporting the portfolio company as it expands outside its home market.

Q: How are these services delivered in Africa?

A: We have consultants in three full-service offices in sub-Saharan Africa, staffed by local professionals, who are in turn supported by subject matter experts and analysts across Africa and around the world. For international investors, blending the support they get from global financial centres with our "boots on the ground" perspective is very powerful.

Q: Talk me through a recent engagement with a PE investor

A: We are doing a great deal of work with private investment heading into the power and infrastructure sectors in Africa. One client was considering an investment in the renewables sector in an East African country. They had asked us to carry out a standard integrity due diligence.

We took a detailed look at the subjects involved in the transaction, but in addition we picked up intelligence that a local community issue, proximate to the deal, was likely to represent an increased threat to the successful conclusion of that investment. As a result, we undertook an assessment across three countries and stakeholder mapping at local and national government levels to understand the issue in more detail and establish how our client could manage it.

Q: Are there any particular risks which investors in Africa tend to underestimate?

A: Whilst it gets plenty of airtime in other markets, cyber security is probably the most underestimated and misunderstood risk in Africa at the moment. Our data suggests that a number of African countries should be considered as significant for cyber vulnerability by our clients; but that said, international investors and businesses in the region often lack detailed intelligence and analysis, or human capital, to assess and manage the situation. PE is no different, and we have seen portfolio companies targeted just as any other business would be.

Q: Looking to the future, would you say that business opportunities in Africa are expanding? If so, what fresh challenges in risk management could PE investors face?

A: Africa's fundamentals look good, and we expect it to continue to be a significant market for us. The growth rates of many African countries are impressive and economic integration within the region continues at pace. I would say it is more a case of PE expanding to meet the myriad opportunities across the African continent, rather than the other way around.

I've mentioned cyber risks, but the other increasing source of risk for PE originates in the US and Europe as well as in Africa. In order to manage the growing issue of global regulatory risk, investors really need to make sure that they have got their integrity risk management and compliance systems nailed down before building a portfolio.

Pre-deal integrity due diligence is standard practice but we are increasingly seeing the larger PE funds push full-cycle bribery, corruption and due diligence compliance programmes down through their whole portfolios in Africa and other high risk markets. Making sure this is in place is one thing; ensuring it is fit for purpose and functioning well is the big challenge.

Q. As Africa changes, are some of the risks faced by PE investors in Africa less prevalent than before?

A: As democracy continues to strengthen in Africa, we're seeing less political volatility. There are a greater number of free and fair elections and of smooth and safe transitions of power.

Changes taking place to the business environment across the continent have the potential to alter the nature of risks facing PE investors, but not necessarily to reduce the severity of the risks. Fundamentally, Africa remains diverse and complex, demanding that critical aspects of risk management remain unchanged, including the importance of understanding the local context in which PE funds will be invested.

Contact AVCA

The Banking Hall, Cropthorne Court,
26 Maida Vale, London W9 1RS

+44 (0)20 3632 0408
www.avca-africa.org
avca@avca-afrca.org

@AVCA_Africa
#AVCAAfrica

African Private Equity and Venture Capital Association