

Private equity key player in Africa's infrastructure deficit

SAVCA Press Release

Tuesday, 22 November 2016

The private equity industry is playing an increasingly critical role in funding the infrastructure deficit in Africa. This is according to the latest figures from the Southern African Venture Capital and Private Equity Association (SAVCA) 2016 Private Equity Industry Performance Survey.

Erika van der Merwe, SAVCA CEO, private equity investment in African infrastructure has been an emerging theme over the past decade.

The survey showed that of the R165,3 billion in assets under management in Southern African private equity in 2015, around R23,8 billion (14.5%) were from funds with a dedicated infrastructure mandate.

This proportion was up from 7.6% in 2014. Nearly one fifth (23.2%) of the industry's unrealised investment portfolio in 2015 was in infrastructure. Of the transactions concluded by Southern African private equity managers in 2015, 14.2% were in the infrastructure sector.

"Private equity funds from various regions have been investing actively in infrastructure projects across sub-Saharan Africa, in the energy, transport and ICT sub-categories," van der Merwe said, and added that this trend was set to continue.

"Investment into African infrastructure offers compelling exposure to African growth, while simultaneously helping to drive that growth. Unlike performances in other world regions, infrastructure assets in Africa continue to offer private equity-style returns, and moreover enable private equity to invest in scale on a continent where there are limited investment opportunities of sufficient size," she said.

Vuyo Ntoi, investment director and head of Southern and Central Africa at African Infrastructure Investment Managers (AIIM), agreed that private equity infrastructure in Africa would continue to grow and attract new players, while creating a positive impact for consumers.

"In large, well-organised infrastructure markets on the continent, there has been a demand for investment opportunities," he said. "For instance, the South African renewables market has attracted attention from international private equity investors, creating a more competitive environment for project equity. The result of this has been positive for the South African power consumer, who will receive very competitively priced renewable energy."

"Private investors in infrastructure projects, especially through private equity vehicles, have proven over time that they can deliver infrastructure services at competitive tariffs, whilst at the same time ensuring that risks related to cost overruns and time delays are not borne by the consumer, but rather by the private sector service providers," Emile Du Toit, head of PAIDF 2 at Harith General Partners said.

The positive knock-on effects of infrastructure investment are significant, including the fostering of cross-border investments and facilitating regional integration. Additionally, these open up new opportunities for add-on or related investments. For example, a toll road project creates the scope for property development, and a host of other down-stream investment activities.

"Private equity investment in Africa can and does serve as a catalyst for development on the continent, in a way that fosters the achievement of targeted and specified developmental goals: Growth prospects are enhanced if infrastructure is made more efficient and can better support the flow of economic activity," van der Merwe said. "Moreover, because this asset class entails equity ownership, the fund manager has influence and can define and shape the philosophy and principles by which the funded organisations and projects operate. Through its growing participation in African infrastructure, private equity will continue to demonstrate its capacity for functioning as a force for good," she concluded.